

# EFFECTIVENESS OF OFFICIAL DEVELOPMENT ASSISTANCE ON RURAL DEVELOPMENT

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### Abbreviations:

USA	-	United States of America
ADB	-	Asian Development Bank
MOECS	-	Ministry of Education, Culture and Science
FA	-	Foreign Aid
FACC	-	Foreign Aid Coordination Council
WB	-	World Bank
GDP	-	Gross Domestic Product
CS	-	Cabinet Secretariat
UN	-	United Nations
UNDP	-	United Nations Development Programme
UB	-	Ulaanbaatar
SGH	-	State Great Hural
MOFE	-	Ministry of Finance and Economy
ASDP	-	Agricultural Sector Development Project
IFAD	-	International Foundation for Agricultural Development
ODA	-	Official Development Assistance
MOFA	-	Ministry of Food and Agriculture

## **Foreword**

I conducted this research study in the framework of Policy Research Fellowships Program of Open Society Forum in order to study how the ODA Mongolia received from donor countries and international organizations in recent years contributed general economic development, particularly rural development of our country and drawing policy recommendations on further aid policies.

I performed the research by meeting relevant people of the government ministries and agencies, donor organizations and projects implementation units in Mongolia and in the form of local field visits in rural areas, during spring and summer months of 2004.

Here I should mention that the research was conducted by a single researcher, therefore it was impossible to cover all levels of rural society down to the level of a herdsman family, so I limited the coverage to aimag centers, which had the highest level or 45 percent of poverty by recent statistics (of 1998) and were focal points to deliver rural development.

On the basis of the research result, I suggested priority fields in rural areas, particularly in aimag centers, where should ODA be concentrated at first order. Also possible measures to be taken in the framework of ODA policy, implementation, monitoring and coordination were recommended not only for ODA in rural areas but also for ODA in general.

This policy research was conducted during election 2004, which was a fairly difficult time for catching and reflecting reality. With a newly established government having the opportunity to set ODA policies, we hope that our proposed recommendations will make a positive contribution to the new government's policy making.

Here we would like to express our sincere gratitude to the staff members of the Open Society Forum, who felt the sense of above necessities, initiated, sponsored and provided all kinds of supports to this research; regional coordinators of the Soros Foundation, who actively participated and assisted in the research; Mr. David Dyer who gave invaluable advice and instructed the process from the beginning; and advisor Mr. Sh.Gungaadorj, who edited the research report.

Finally, I am grateful to government officers, business people and local people in aimags for their attachment of significance to the research, sincere attitude and kind provision of all possible information.

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## **ONE. BRIEF SUMMARY**

The ODA of 2.5 billion USD, Mongolia received since 1991, has greatly contributed the country in overcoming early periods of transition to a market economy with less trouble and laying the foundation of market economy. However, highly efficient use of the above amount of ODA would have resulted in GDP per capita 3-10 times higher than current level, poverty reduction to 10 % and infant mortality reduction to 7 per 1000 live birth, which is 3-4 times lower than their current level. Also it was estimated that the domestic investment would have reached the level- 9 times higher than the current level. It is related to the fact that Mongolia has poor economic policy and institutional structure and mechanism as well as poor implementation of laws and rules.

Research shows that the ODA effectiveness is disappointing, especially in rural areas. It was explained by reasons of basically no development policy management, planning and priority setting, inadequate policy making and coordination; low salary level of civil servants, consequently leading to ethical distortion and corruption; and lack of a permanent system of monitoring and information. Also many factors, like over-politicization of ministries, implementing agencies and local government bodies; instability of human resource policies; and social-oriented, but not growth-oriented working approaches had negative effects on the ODA effectiveness. Therefore, it is reasonable to say that the ODA effectiveness shall be increased by adopting sound economic policies, long and medium-term strategic planning, setting a list of ODA priorities, preferring economic efficiency as a basic indicator of project evaluation, organizing broad discussions on utilizing projects with economic efficiency rather than social ones, and creating public information system that provides systematic information on incoming foreign aid. And research results show that ODA can be economically more efficient if we use it further concentrating on a few directions such as private sector development, energy sector, small and medium enterprises that process livestock-origin and natural raw materials and housing projects at aimag centers.

Moreover, there is a necessity to create a monitoring system that controls each stage of ODA policies and directions, project selection, qualification, implementation and follow-up stages. It is not an idea to create a completely new organization. Rather, we need to create a system where citizens, civil society and research institutions play a major role, while adding another condition to disclose information in designing its working mechanism. Also, it is important to maintain a direction to increase the portion of grant aid in ODA up to 65-70% while reducing portion of loans down to 35-30%, as a common standard of other developing countries.

## TWO. BACKGROUND

### 2.1 Introduction

Our country has received 2.5 billion USD of ODA between 1991-2002.

The ODA Mongolia received between 1991-2002 has greatly contributed to the country's effort to overcome the socioeconomic transition and crisis situation of early 1990s. Mongolia made its transition with less troubles than it might have had, and laid a sound foundation for a market economy. For instance, a shortage of consumer products, including food and power supply, and severe balance of payment problems caused by the breakdown of former system were covered by the ODA, which created an opportunity to pass through this period of widespread socioeconomic problems in a relatively short period of time. In addition, ODA greatly contributed in laying basic foundations and implementing transition to a market economy properly.

In early years ODA took a form of emergency aid, and then later (from 1994 when the crisis situation gave signs of ending and the economy started to grow) it was used for physical infrastructure (energy, road and transportation and financial sectors) with to the intent of stabilizing the economy and laying foundations of market economy. Thanks to continuous efforts of Mongolian Government and with the needed infusion of ODA, the economy gradually grew, inflation was reduced from a triple digit rate to a single digit rate and private sector-based economic foundation was laid down. For the last three years of transition, the government prioritised development of market system, poverty reduction, capacity building and strengthening of the public services.

Although the government disbursed ODA equals to 2.5 times the country's GDP in the last decade, today the country still experiences a slow economic growth, high poverty level, and continuous migration from rural to urban areas. This lack of progress raises questions: where is the outcome of such a large amount of loans and grant aid? And, to what extent has it been effective? Were the funds used efficiently on proper items? Or, given the lack of progress, isn't it time to change policies and regulations that have been maintained up to now? Today we just see a GDP growth, but poverty level has not been reduced below the 1995 level, while 35-36<sup>1</sup> percent of total urban population is poor<sup>2</sup> and another significant portion of population is close to the poverty line. Also, a high level of unemployment, low quality of health and education services, unfavorable business environment, remoteness, inadequacy of financial sources and human resources- all cause a massive migration of rural citizens to urban areas in search of a better life. But this massive migration would not be considered as a problem if the immigrants could find employment and better living conditions in urban areas. Migration patterns suggest forward another question: Could they have benefited more and achieved better results if policies and regulations were different from what we have now? Even though the Government of Mongolia started to adopt and implement a Poverty Reduction and Economic Growth Strategy in cooperation with the World Bank in order to solve the recent issues of these socioeconomic problems, another question was raised on Mongolia's ability to create development pathways without the debt burden (of ODA loans) increasing year by year. These and other questions show that there is a necessity to study the issue and make necessary changes.

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<sup>1</sup> Human Development Report of Mongolia 2003

<sup>2</sup> Average monthly consumption up to 15180 MNT - very poor

15180-25300 MNT - poor

23501-40480 MNT - non poor or average income

higher - rich as classified in the human development report "Urban and rural

disparities" written in the framework of "Poverty research and employment facilitation" project implemented by UNDP.

Therefore, the objective of this research is to help policy makers to accept the above necessities and change their policies and regulation for receiving and utilizing ODA.

### **Research**

#### **2.1.1 Research purpose**

The main purpose of this research is to study how the ODA that Mongolia received from donor countries and international organizations in recent years contributed to its general economic development, and particularly development in rural areas of the country. We also derive policy recommendations on Mongolia might better receive and use the ODA further, on the basis of the research findings.

In order to achieve the main objective , we tried to implement a set of activities in following phases:

- Studying system of ODA receiving policies and regulations of our country;
- Determining accuracy of ODA information;
- Identifying how accessible is ODA in rural areas and how it contributed to the rural development in rural areas;
- Drawing policy recommendation on how to improve policies and regulations on receiving ODA on the basis of advantages and disadvantages identified from the above framework;

#### **2.1.2 Terminological concepts of the research**

A) Since the research was conducted under title "Effectiveness of ODA on rural development", I aimed to focus it on rural areas. But the research concept "RURAL" refers to only aimag centers (in some cases soum centers with more than 15 thousands of population) and includes nomadic herdsman that live on nomadic livestock breeding only if they were closely connected to the urban centers. In other words, it refers to aimag centers except for Ulaanbaatar. Here I should mention several reasons for this selection:

-According to the "Human Development Report of Mongolia 2003", poverty level is relatively higher (39.4%) in urban areas than in rural areas. The poverty level in aimag centers reached 45.1<sup>3</sup> percent of total population by 1998;

- On the other hand, by developing aimag centers, living standards of total population residing in the aimag territory shall be improved. They will be able to meet their basic needs from aimag centers or the nearest urban areas, thereby reduces their dependence only on Ulaanbaatar;

- In order to create favorable market environment and deliver high-quality social services, including health and education services to rural population, we need to focus on aimag centers and rural residential centers at first;

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<sup>3</sup> Living Standard Measurement Survey 1998

B) I also included the concept "GROWTH" considering the POVERTY shall be reduced by facilitating growth. In recent years, majority of ODA has been granted for the poverty reduction purposes. If we detail those measures, most of them, besides measures of health and education, were directed toward generating overall economic growth from grassroots level of households and cooperatives, including creation of independent income sources, business education and business entrepreneurship, but not toward meeting temporary needs of foods, clothes etc. Therefore, I intended to see the research from an angle of economic growth.

### **2.1.3 Scale and methodology of the research**

In terms of policy and regulation, the research covered all ODA that Mongolia received nationwide. And in terms of effectiveness, I sought to reflect its contributions to rural development and socioeconomic spheres in a fairly detailed way. I also tried to see the research from several different positions:

- From the position of Mongolian Government- how and by what policy does it receive and use ODA;
- From the position of donor countries and international organizations – how do they grant ODA in terms of their policies and regulations as well as linkage with policies of Mongolian Government;
- From the focal position of local community – how do rural people benefit from the above aid?

I aimed to find key answers to the main research theme from these position and personally visited Uvurkhangai, Bayankhongor, Selenge, Dornod, Khentii, Khovd and Zavkhan aimags to conduct field researches.

In the framework of this research, I met to exchange opinions with more than 400 individuals including those from civil service, public sector, private business sector and project implementing unit as well as ordinary citizens and local residents. Besides, I surveyed their opinion using questionnaires prepared in two different forms: one for local administration officers and civil servant and one for local citizens and businessmen. The research was conducted in two ways: personal interviews/field visits and questionnaire. I classified participants of the research by their production, service and business types as shown on the Appendix 1.

### **2.1.4 ODA research studies and issues for further study**

#### **A. Current research studies**

Internationally, a large number of research studies about ODA exist. One of those research studies, perhaps the one covering the broadest scale and contained considerably well-done policy research, was a study, "*Assessing Aid*", conducted by the World Bank, which covered over 50 countries or aid beneficiaries that received ODA for the last 30 years. I broadly used this survey in comparing Mongolian situation with other countries.

But, independent research materials, conclusions and recommendations on ODA effectiveness and its improvement that specifically focused on Mongolia were very few. Such specific reports include:

- Research report "*Recommendations on improvement of foreign aid management and coordination*"- prepared by research team of the Mongolian Society of Irkutsk Economic University in the framework of the UNDP-based project "Support to Coordination of External Development Resources", 2002.
- "Economic Growth of Mongolia and Some Issues to Accelerate the Growth" - Academician T.Dorj's speech presented to the First Summit on National Productivity in 2002.
- Human Development Report of Mongolia - 2003.

## **B. Issues for further study:**

I propose following issues to be studied further:

- ODA conditions proposed by donors at international level and consult the Government about options to relieve such conditions;
- Main criteria of project qualifications in countries which used ODA most efficiently for accelerating their growth and development, in terms of ODA policies, institutional structures and technical and economic feasibility requirements;
- Whether the equipments and facilities supplied by projects implemented by ODA, especially from grant aid, are used for their intended purposes, whether the personnel work by in their areas of professional training, whether the project established structures, systems, and project activities are maintained for the intended purposes;
- Identify or study what percent of ODA continues to run and gives targeted outcomes or how many percent of them was short-lived and why they stopped their operations. By this research, 17% of all respondents replied that they could run their operations fully, in some cases partly, after the end of project outcome, 23% of them replied they couldn't run further and rest of 60% answered, "don't know". Therefore, it is important to study continuance of foreign aid projects and identify what changes of policy and regulation need to be done;
- Need to conduct a survey on prices of goods, products and services supplied by ODA. Since the officers received foreign aid products complain a lot that the contract prices are too high, we need to study and develop proposal to regulate supply policies of aid products.
- It is a common issue that the foreign consultants cost too high. Here we need to study the issue and develop methodologies and recommendations for further actions.

### **2.1.5 Problems faced during the research**

Some problems faced during the research are described below:

- It was difficult to get information from central government organizations and ministries. Specifically, the research was mainly conducted in previous



months of the election when the information collection was very difficult because the MOFE and other ministries had taken preventive position not to give out any information. (Apparently, there was a ministry directive that officially warned the officers not to disclose such information, in order to avoid possible criticism). Also such a "state of alert" could be observed commonly at donor project implementation units located at ministries. That is, there was a common trend to "own" information. However, information they own was not so complete and in some cases contrasting with each other.

- Also in some cases officers of ministries and government organizations showed casual and indifferent attitudes to researcher, by not coming to or avoiding appointments (making excuses concerning their work overload) and by treating them as university students that collect materials for writing school work projects.
- Assessing effectiveness of ODA was made more difficult because responses from all levels of government officers were cautious, reflecting a self-protecting attitude, avoiding accountability, and providing wishy-washy answers or general answers, such as "overall, it was effective".
- ODA awareness was very low among aimag and soum citizens who mostly understand ODA to be humanitarian aid and name all assistance simply as "project". Also, aimag administration officers called it "project and programme" including government programs and foreign aid into one concept. Therefore, it was difficult to understand them separately.
- Some efficiency and growth indicators taken to measure rural development, such as number of taxpayers or tax income, were no longer usable for the purpose because of regular policy shifts, changes in the status of business entities, and transfers between local/central budget taxpayers. Numbers of aimag taxpayers issued by aimag taxation offices are shown in the Appendix 2.

Chapter 5 shows policy recommendations drawn from the research result, Chapter 3 describes background information such as current ODA policies and regulations, amount and scale of ODA utilization, and Chapter 4 describes ODA effectiveness on rural development.

### **THREE. ODA IN MONGOLIA**

#### **3.1. *Amount, scale and possible outcome of ODA***

Using main indicators that show economic and aid dependence rates of a country, I compared ODA status of Mongolia with over 50 developing countries, including East European and Central Asian countries similarly developing in transition from centrally planned to market economy and other developing and less developed countries received large amounts of loans and aid or shifted their development status in the last 30 years. Mongolia received and used in total 2.5 billion US\$ of ODA between 1991-2002. Each year Mongolia had received 82<sup>4</sup> US\$ of ODA per capita, by the average of 1993-2001

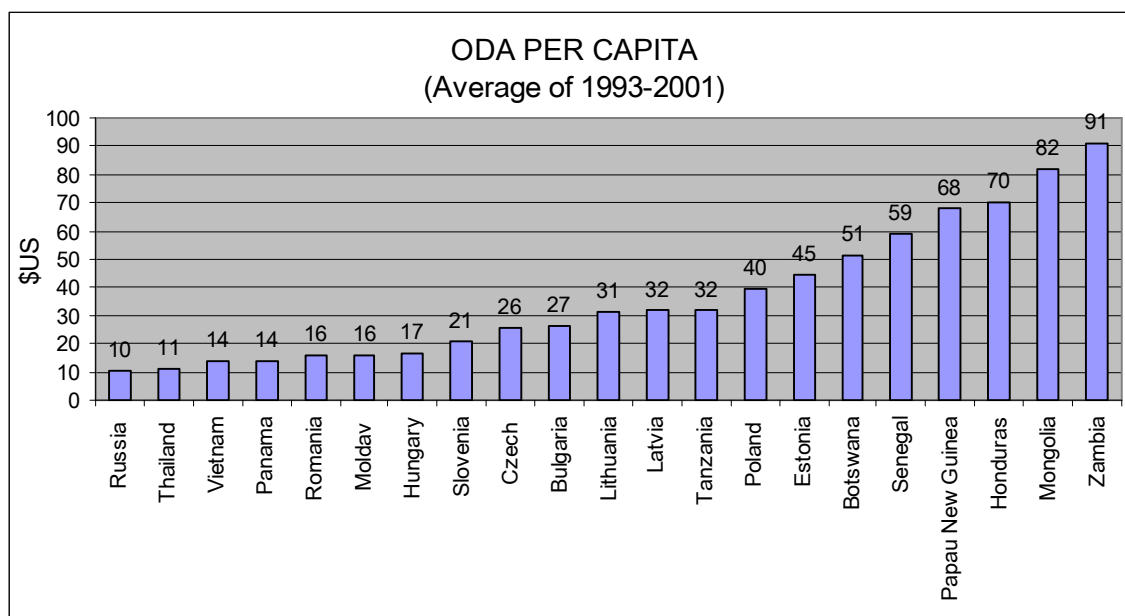
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<sup>4</sup> <http://www.oecd.org/statistics> and World Development Indicators 2000, 2002 and 2003.

and by this indicator, Mongolia was ranked in the second place among the world countries (not including Bosnia and Herzegovina).

**Chart 1.**

Chart 1. ODA per capita /Average of 1991-2002/



Source: <http://www.oecd.org/statistics> and World Development Indicators 2000, 2002 and 2003

Each year Mongolia received ODA equals to 17-32 percent of its annual GDP (21.7% - World Development Indicators 2000, 2002 and 2003) in average and today it is one of 5 countries highly dependent on aid.

**Table 1. ODA, Mongolia received between 1991-2002**  
/in million USD/

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
ODA	258	141	195	221	215	196	244	207	238	174	213	174
GDP(by nominal rate)	473	146	493	785	1227	1179	1054	972	906	970	1014	1107
GDP (by the rate of 1995 )	1217	1101	1068	1093	1162	1189	1237	1280	1322	1336	1349	1404
ODA/GDP (by nominal rate)	55%	97%	40%	28%	18%	17%	23%	21%	26%	18%	21%	16%
ODA/GDP (by the rate of 1995 )	21%	13%	18%	20%	19%	17%	20%	16%	18%	13%	16%	16%

Source: 1. Ministry of Finance and Economy, Mongolia, 'Effectiveness & Contributions of ODA for Mongolia'. Mongolia Consultative Group Meeting. November 19-21, 2003. Tokyo, Japan  
2. National Statistical Office, Statistical bulletin 1989-2002

Table 2 shows aid dependence rate of Mongolia by the average of 1991-2002, as published on the book *World Development Indicators*.

**Table 2. Aid dependence rate of Mongolia  
/by the average of 1991-2002/**

Indicators	Average	From the top
1. Average amount of ODA per capita (USD/year) (not including Bosnia and Herzegovina)	82.0	3
2. ODA/GDP (%)	17.0	4
3. ODA/ Total investment (%)	75.1	6
4. ODA/ Import (%)	31.2	5
5. ODA/ Government budget expenditure (%)	83.0	2

The above table shows that Mongolia is among the world's leading countries in terms of ODA received per capital. Here alerts that it turns to be a country with vulnerable economy overly dependent on foreign aid.

Being dependent on aid means the government of the country is no longer able to perform its main functions such as basic social services without foreign aid resources and consultation. Here includes countries that receive aid equals to 10 or more percent of their GDP. Number of such countries reached over 30 by 2000. Aid dependence is measured by aid "intensity". Statistical research on the indicators of many countries showed that very strong negative relationship existed between aid intensity and quality of governance. That is, aid intensity was adversely affected by poor quality of governance. Also it was proved that continuous receipt of aid for a long term is a factor of worsening governance and institutional structure and slowing development. Even though Mongolia has not received aid for a long time, the amount equals to 20% of GDP suggests likelihood of being in trouble.

On the other hand, there is a necessity to check whether Mongolia's society and economy developed rapidly as its ODA rank would suggest, as one of the top recipients in the world. In order to make this check, I used as a basic benchmark the "Assessing Aid" policy research (1998) conducted by the World Bank, which covered over 50 countries or aid beneficiaries that received ODA for the last 30 years. As summarized by this research report, ODA brings high level of benefits to countries with well-defined socioeconomic policies, sound organization of institutional structures and governments that work lawfully toward providing better government service or consistently make efforts to keep the service as good as it should be. For instance, the report defined that it is possible for a country, received ODA equals to 1% of its GDP and used it properly as mentioned above, to attain following outcomes:

- 2.2-3.7 % increase in GDP per capita
- 0.5% increase in GDP growth
- 1% poverty reduction
- Attract private investment equals to 1.9% of GDP

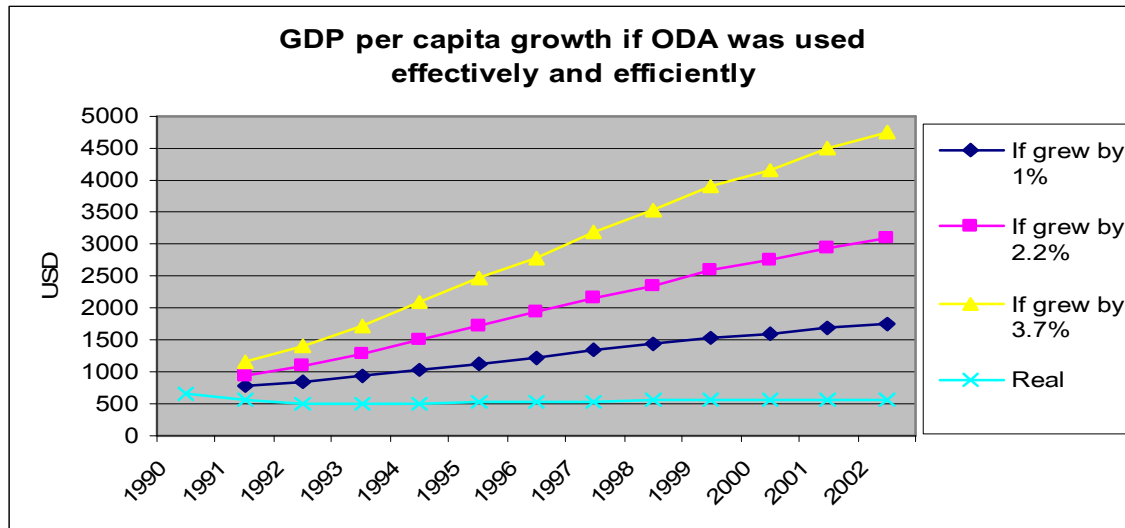
- 1% reduction in infant mortality

Examples of countries that successfully used ODA for overcoming crisis and achieving a high level of development include Korea in 1960s, Indonesia in 1970s, Bolivia and Ghana in 1980s, and both Uganda and Vietnam in 1990s.

But, on the other hand, countries like Congo and Tanzania that received billions of USD of ODA for several decades could not achieve any development or progress because of their weak policies and regulations, technical or managerial incompetence, and corruption. Instead of progress, ODA loans left these countries among the most heavily indebted poor countries. Tanzania was granted 2 billion USD of ODA for 20 years, only for the purpose of road construction. But it was ineffective because the constructed roads were eroded and damaged quicker than the construction could take place, because of a lack of necessary repair works.

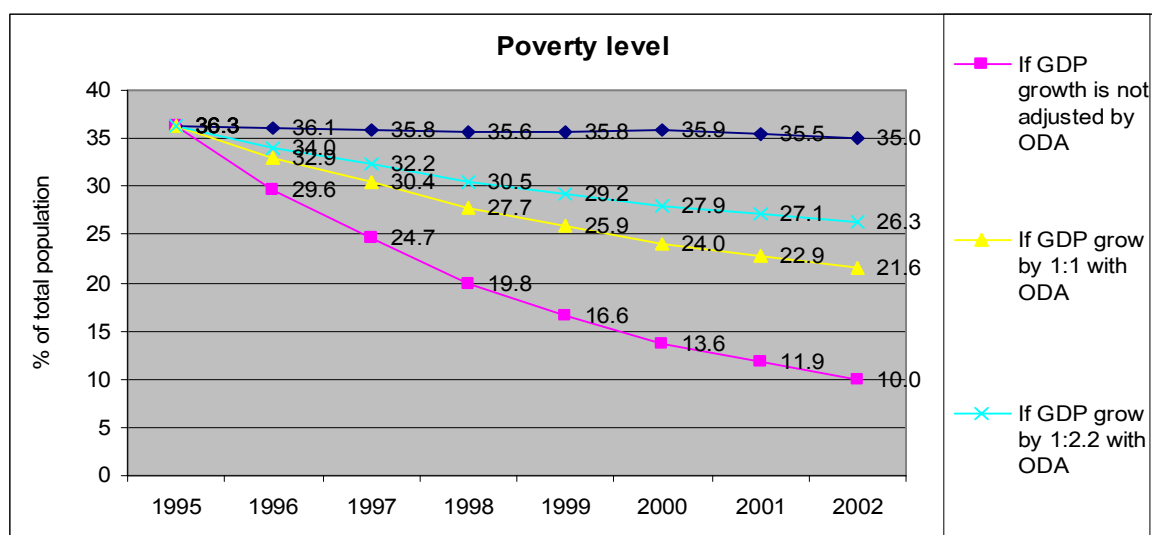
On the basis of the above-mentioned World Bank research summary, I estimated some indicators to check what levels Mongolia's major socioeconomic indicators might have reached if Mongolia had used properly the ODA received between 1991-2002. According to my estimation, it was possible for Mongolia's GDP per capita to reach 4700.00 USD, instead of the current (approximately) 400.00 USD. By the most modest estimation, taking into account the vast territory and scarce population factors that would adversely effect ODA effectiveness, a reasonable expectation for Mongolia's GDP per capita should be at least 1700.00 USD. That is, I assumed here that our GDP per capita was likely to increase by only 1 percent, which is a half of the minimum possible growth, as result of the ODA equals to 1% of our GDP.

**Chart 2.**



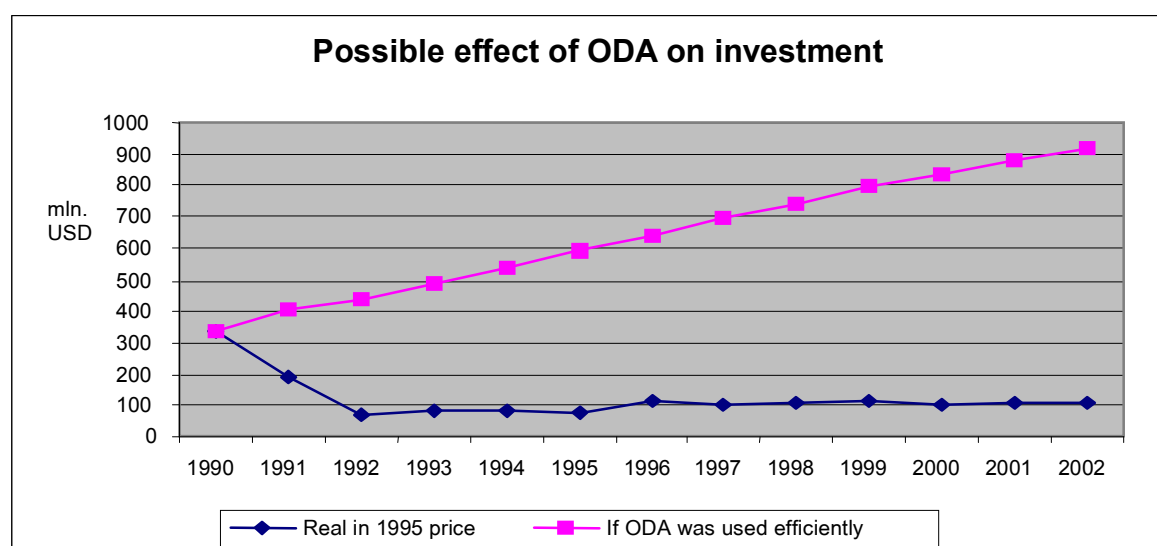
Poverty level has been officially measured since 1995. However, highly efficient use of the ODA we received since that time would have reduced the poverty level from 36.3% to 21.6.

**Chart 3.**



Moreover, the chart below shows a comparison that indicates real investment would have reached the level- 9 times higher than the current level.

**Chart 4.**



*In other words, it was possible for Mongolia's GDP per capita to be some 3 to 10 times higher than today's actual level, for the poverty level to be reduced down to 21.6%, and infant mortality to be lowered by 3 to 4 times from its current level, reaching 7 per 1000 live births. Also it was estimated that the domestic investment would have been 9 times higher than the current level.*

### 3.2. *Current policies and regulations of receiving ODA*

Main document on foreign aid policy and regulation is the Law of Mongolia on Foreign Aid Regulations, enacted in June 2003 and other documents include Law on International Treaties, annual state budget laws of Mongolia, "Procedure for regulating official development loans and aid the Government of Mongolia receives from foreign countries and international organizations" approved by the Government Resolution No.

93 of 1999 and "Procedure on Foreign Aid Coordination Council and its rules", revised by the Government Resolution No. 152 of 2000.

Although a new law on foreign aid regulation was adopted, the above-mentioned procedures approved by the government resolutions, which were basic regulatory documents before the law, are still valid. So it is necessary to amend those procedures in line with the new law.

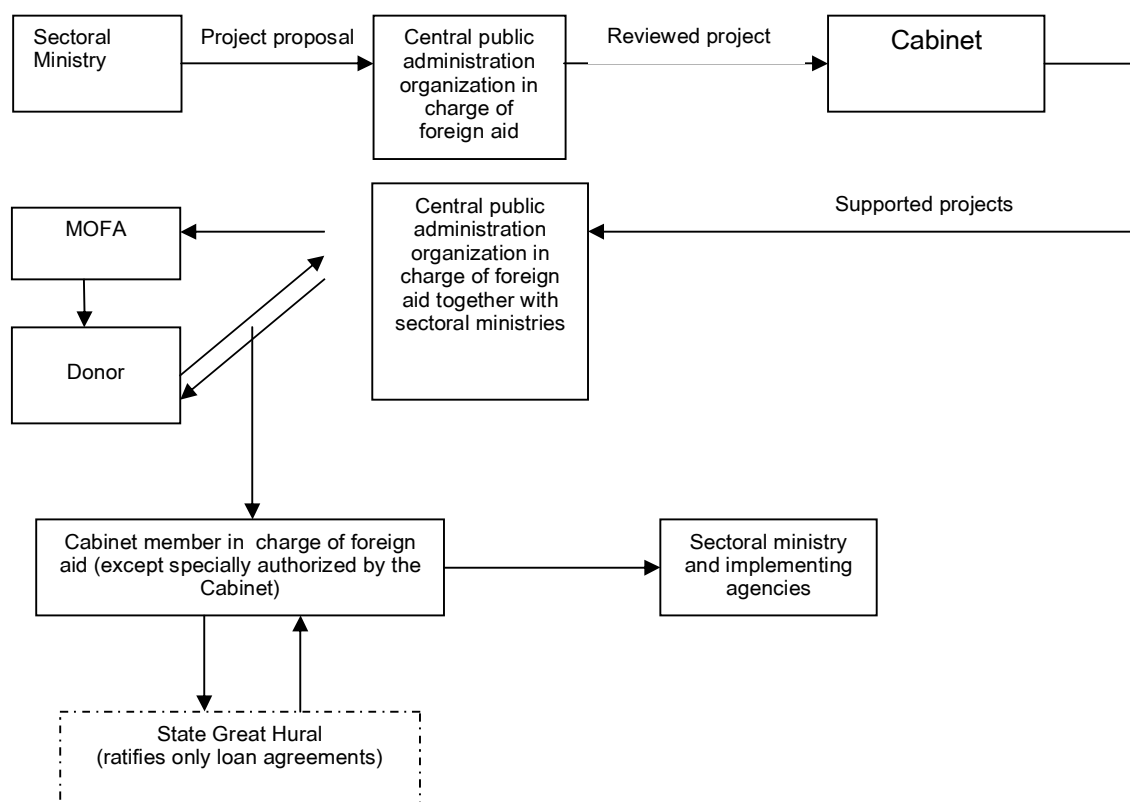
According to the new law, foreign assistance shall:

- Be closely linked with medium-term development strategy, long run strategy and state budget investment plans;
- Regard common interests of the country;
- Have concessional terms if it is a loan;
- Have low total costs of consultancy service;
- Reflect production and repair costs in technical and economic terms as well as technological, socioeconomic and environmental requirements and loan efficiency calculations in the feasibility study, according to relevant legal acts.
- A project loan has a basic requirement that total domestic funding shall include domestic tax relief and exemption as well as costs of domestically supplied products and services.

Although the above requirements were generally reflected in effective government resolutions enforced before enactment of the new law, it is doubtful to conclude that both so far implemented or under implementation projects could meet above requirements being truly economically efficient. For example, Dornod thermal power station was repaired with 11.6 million Euros of project loan. Today this power station operates smoothly, but it uses only up to 20 percent of its capacity due to low market demand and still receives subsidy from state budget. Therefore, we should review whether its economic efficiency was correctly calculated, whether the reality was reflected in medium-term development strategy of the project and whether future demand and supply of the region was estimated. Similarly, we need to review technical and economic feasibilities of large-scale investment projects and establish economic efficiency criteria for each stage of decision-making and evaluation for further projects and measures lawfully. Moreover, ongoing monitoring on project implementation and follow-up performance evaluation mechanisms need to be reflected in relevant laws.

According to the law, central public administration organization in charge of foreign aid affairs shall have duties to "... review projects received from ministries in line with medium-term development strategy, far-reaching objective, state budget, investment plan, overall significance, socioeconomic effectiveness as well as policies and regulations of partners and submit to the Cabinet for discussion and decision-making". Besides, the law states that it has the authority to conduct technical and economic feasibility studies and analysis on programs, projects and measures implemented by foreign aid. Here we can see that this organization is a sole authority that makes decision to spend ODA on efficient projects. However, whether or not to undertake an economic feasibility study or estimation is a decision left to the organization since that action is not mandatory. The law says that the central public administration organization in charge of foreign aid affairs, shall review project proposals from sectoral ministries, submit the review for Cabinet discussion, propose supported projects to donors according to relevant procedures, and sign a contract jointly with project applicant. On the other hand, the Parliament is authorized to ratify loan agreements. Diagram 1 shows how procedures to receive foreign aid are reflected in the Law on foreign aid regulation.

Diagram on procedures to receive ODA



Above procedures shows only the stage where the proposal has reached government level, therefore the diagram does not illustrate how local and grassroots level initiatives shall reach government level passing other preliminary stages. Even at the upper level, procedures were not legislated to be simple and easy. Although the law stated that the Cabinet should discuss all foreign aid proposals, currently practiced actual procedures were quite different from the above, in which MOFE receives project proposals from sectoral ministries, reviews whether they meet cooperation program directions of the donor and submits to the Foreign Aid Coordination Council (FACC) for discussion. Although FACC was re-established by Government Resolution No. 152 of year 2000, the structure was not reflected in the new law. FACC aims to coordinate efficient use of ODA and foreign aid related activities and its membership includes the Minister of Finance and Economy as a chairman and other members including Vice Ministers, the First Deputy Governor of the Bank of Mongolia and the Chief of Cabinet Secretariat. It makes decisions to submit some projects for Cabinet discussion, some projects to return, and some to send directly to donors. Even it is not legally binding, FACC is accustomed to negotiating contracts on the loan projects appraised by Cabinet discussion, and then the SGH ratifies them automatically. Such practice of approval after discussion is good, but the automatic approval of all loan projects raises doubt whether the SGH makes decision after scrutinizing their economic efficiency, significance and effect on development or just approves them directly without taking responsibility because of political pressure and under procedural constraint from donors.

Also the central government authority in charge of foreign aid affairs is legislated to have a duty to maintain foreign aid registration and database. We should appreciate that Treasury Department of MOFE completely maintains compiled registration of ODA loans along with detailed repayment schedules. Loans are registered to the above information database on their starting day of disbursement. Although the MOFE Department of Economic Cooperation Management and Coordination is responsible for maintaining grant aid database, what they have done was almost incomplete and not regularly updated. Information of this database radically contrasted with information received from donors and in many cases grant aid information was not reflected in full programs and projects and some of them had different names. For example;

USAID-based:

- Agricultural Bank Reform project,
- Competitiveness Initiative project

ADB-based

- TA- 2720 "Improving Banking System Control and Restructuring" project with funding of 1.0 million USD
- TA -3208 Technical Assistance Loan for Improving Banking System Restructuring with funding of 220.0 thousand USD

Unlike loans, disbursement and utilization of grant aid do not flow through single window, so that MOFE has little chance to compile all of them into one integrated database.

However, in comparison to previous years when there was no permanent structure of coordinating ODA affairs where several ministries involved concurrently, significant progresses of aid coordination have been made in the last four years. The new law somewhat eliminated power conflicts among ministries and their attempts to handle aid affairs individually, in particularly the coordination of a development loan is now being handled by one corporate hand.

Although the MOFE, central government authority in charge of aid affairs, has few number of staffs, they bear a big responsibility of handling major development policy issues of Mongolia including national economic development strategy; budget policy, their planning and implementation; and ODA coordination. Besides, they take responsibility of organizing implementations, directly and indirectly. Therefore, it makes the ministry too overloaded and unable to perform its main functions and concentrate on its main objectives properly. Due to their aspiration to cover budget losses by any means, today the MOFE turned to be a ministry that tends to look everything through a window of budget, acquiesces any financial terms of ODA with that purpose, and focuses their attention on raising budget income. According to the law and other procedures that used to be effective, the MOFE is obliged to conduct economic feasibility study and analysis on each loan request or proposal, but basically they do not perform this function in practice. It is not reasonable to assume that the ministry performs everything with its few staffs, including those works such as preparing materials for annual donors' meeting, reviewing and scrutinizing each projects proposed for approximately 300 million USD of loans and aid pledged by the meeting, estimating their economic efficiency and receiving actual funding officially, besides handling their function to record and update the database of loans and grant aid. In other words, today staff in ministries just work on daily routine matters, but they lack functions to perform socio-economic efficiency analyses and feasibility studies on national-level projects and measures and provide economically justifiable consulting to the Cabinet.



Besides, previous studies show that professional officers of core ministries have low level of capacity and stability. Despite a law on civil servants exists effective, here we should be critical that the law is not always obeyed. Moreover, work lags have been created due to incapacity of illegally recruited personnel just aimed to study abroad in developed countries under government scholarship, but unable to perform functions stated by laws. Especially for ODA, such illegal practices create grounds for implementing inefficient loan projects, further increasing budget debts and creating budget overload.

Although the main policy document- Law on foreign aid regulation- stated that a number of regulatory documents needs to be developed, so far none of them was officially issued, but still in their draft phases at ministries. For instance,

- Procedure on registering foreign aid granted in the form of goods and products
- Procedure on domestic on-lending of foreign aid resources and its contract form
- Procedure on project implementation report
- Medium-term program on receiving foreign aid
- Procedure and guideline on requesting necessary documents and materials from relevant bodies
- Procedure on reporting storage, protection, usage and expenditure of foreign aid resources
- Procedure on creation and use of foreign aid records and information database

In early 1990s, foreign aid affairs were basically coordinated by donors' management, but today it is appreciable that some sectoral ministries started to make attempts to do own coordination. But the outcomes have not been significantly effective yet. It is common for several donor projects to include a part of similar activities reflected in little different ways. For example, well drilling and repairing activity was reflected in different ways in 8-9 projects and programs including Agricultural Development Project (ADB), Sustainable Livelihood Support Project (WB), Rural Poverty Reduction Project (IFAD), Sustainable Pastureland Management Project (UNDP, the Netherlands), and other World Vision, ADRA and JICA projects. However, initiative for joint harmonization activities to improve aid outcome and effectiveness was raised at the Donor Meeting, held in November, 2003 in Tokyo and started to make attempts in some sectoral levels. For instance, a working group for studying possibilities to incorporate multi-source financing of well drilling and repairing activities was established at the MOFA and they have produced a report. This is a quite positive step toward improving coordination. In restoring over 30 thousand wells and building new ones, the probability of overlapping is low, though medium and long-term efficiency results from implementing projects under one incorporated coordination shall be increased, as we also need to coordinate their further repairing services and pastureland management issues. Say that MoFE coordinates its activities with donor countries and organizations by each cooperation field, but the ministry uses it mainly for project selection purposes. In terms of territorial coordination, they started to make some attempts. A clear example is, they agreed on concepts and directions to cooperate with Germany and indicated that the cooperation shall concentrate territorially on Tuv and Selenge region as well as Zavkhan aimag.

Over 30% of total ODA and almost a half of total concessional loans were spent only on infrastructure including road construction, energy sector restoration, communication sector development and improvement of public utilities, which accorded to the policies

of several governments aimed to develop hard infrastructure for economic development since 1990s. In this field, policies and implementations have been well linked. As result, today coverage of telecommunication services has been improved radically and all forms of telecommunication such as telephone or mobile communication and internet connection have been completely introduced at aimag and city level and even in some cases reached soum level. Also distance education facilities have been connecting aimags and cities. Moreover, almost all aimags except for three aimags have been connected to central power line, which means preliminary conditions for production and business development have been created in aimags. Large scale road construction works have improved roads between three big cities and some central aimags, thereby undoubtedly accelerates economic turnover of the region.

However, what we undervalued here are the industrial and agricultural sectors that produce over 50% of our GDP, which have used 13% of total ODA and merely 15% of total loans. In contrast, education, health and social security sectors received more ODA than these sectors, which does not accord to government policies for growth generation, poverty reduction and export promotion

The central government authority in charge of foreign aid affairs, sectoral ministries and aimag and capital city Governors shall monitor implementation of approved projects, as stated in law. Officials of ministries, agencies and local administration bodies say that they exercise control on project financing, but I did not feel such control in reality. Donors control implementations to certain extents according to their criteria, procedures and guidelines. From the side of Mongolia, almost no controlling system that monitors actual performances with systematic analyses and evaluation is available, except for timely responses to donors' request and concentration on expenditure of resources. It is associated with fact that there are no clear performance criteria for monitoring and evaluation and proper monitoring mechanism. Though monitoring and evaluation divisions were established within ministries at the time of previous government, so far they couldn't place substantial controls. For example, Monitoring and evaluation division of the Ministry of Infrastructure, where largest amount of ODA projects are implemented, does not evaluate implementing aid projects or project proposals. Even when they try to monitor and evaluate one or two implemented projects, they do not know how to measure their performances.

On the other hand, projects proposed by donors' side are often too far-sighted and use overly optimistic assumptions about price and tariff policies and regulations, thereby shows the project look efficient. But in practice, those optimist assumptions do not match reality, so that today there are many cases in which ODA loan investments have been working inefficiently. For example, the project investment for improving public utilities in five western aimags has not still yielded its economic efficiency and created capacity to repay loan principal and interest payments. It was socially significant project, but those entities had to repay the loan according to the on-lending contracts couldn't increase their sales tariff rates up to the level of initial project assumption and had to work economically inefficient.

Also the World Bank loan project of 35 million USD was implemented in Baganuur coal mining, where 40 percent of heavy machineries supplied by the projects has been broken. But now the coal mining operates and supplies its products normally. It shows that we also need to review how capacity and number of machineries and equipments selected by projects correlated with other factors like personnel, repair and maintenance as well as supply of spare parts.

Both project implementors and donors criticize that project effectiveness reduces as long as its implementation lags; and they explain it in connection with following reasons:

- Government does not keep what they promised in the framework of projects and programs or does not hold consistent stance. For example, it delays finances from government resources, doesn't take measures to prepare in advance etc.
- Sectoral ministries and MOFE are incapable of drafting projects to meet donors' requirements. They just propose something like a list of wishes.
- There is a common concept that donors shall implement projects themselves.
- They do not care project outcomes, instead, put more importance on training, facilities and study trips.
- There are many bureaucratic stages of decision making and each organization throws issues to one another. Basically, all issues are resolved by reaching the top level. Here wastes a lot of time.

Official government reporting is limited by only quantitative expression of ODA in input stage and public reporting limited by just TV shows on signing ceremonies of received projects or tape cutting ceremonies for imported goods, machineries and equipments, running newspaper advertisement on those ceremonies for the public, while there is no reporting and accountability system on actual outcomes achieved after completion of the projects. For only last two months of observation, many of such kind of ceremonial news appeared on TV and daily newspapers simultaneously for one day, while news on evaluation of actual project outcomes almost did not appear to the public.

### 3.3 Summary

Summary of current situation of ODA policies and regulations can be made in general:

- ***Inadequate ODA policy and regulation.*** National long and medium term development policy priorities are not clear, they cover all socioeconomic sectors and list all of them, and it is not clear whether government prioritized certain issues. ODA policies and coordination are inadequate. Basically there is no development policy and planning on ODA utilization. The new law enacted in 2003 defined general foreign aid policy, stating "Foreign aid shall regard mid-term development strategy, long-term vision, state fiscal and investment plans and common national interests". Besides, the law prescribed common requirements for ODA projects and measures as well as authorities and duties of government organizations in receiving and implementing ODA. However, actual practices do not meet above requirements and conditions; and government organizations still decide issues on ad-hoc basis, not performing their duties and activities properly as stated in the law. Also, lack of clearly stated direction and sectoral priority list on ODA utilization leads to approve projects with best solicit and political lobby. On the other hand, ministries have a desire to receive foreign aid as much as possible and to manage its implementation by themselves, which is another factor influences the selection process. Initiative for donor to donor and donor to government coordination was frequently raised, but so far no significant outcome has been achieved.

- ***Does not regard economic efficiency as a main indicator, especially for loans;*** Directions for donors' aid and cooperation are well maintained, but they are not used as a basis for project selection and correct estimation of economic efficiency. Since today there is almost no evaluation mechanism for receiving and utilised loans, still exists possibility for receiving economically inefficient loans further. They seek appraisal for projects that show high level of social importance and indefinite economic efficiency or too far-sighted dream of efficiency and submit them to donors, even their economic efficiency is not clear. They receive loans that prioritised social services but economically ineffective in the near future. Large investment objects constructed and restored by loan resources suffer losses for several years starting from their date of operation and receive budget subsidies.

- The Foreign Aid Coordination Council that was established to coordinate aid before enactment of the law (but no longer in the new law) still works to date, discusses and makes decisions on projects. Although officials say that this council operates now to facilitate Cabinet meeting; it works under influence of its members, who wanted to include own sectoral projects, and in some cases ***under manipulation and attempts of political officials, including MPs, who wanted to influence the decision making by misuse of their power***, rather than really facilitating the Cabinet meeting by screening projects according to their major socioeconomic effectiveness, efficiency and outcome indicators.

- They overly follow interests, requirements and conditions proposed by donors and ready to accept any terms in case of receiving money and finance, which accords to the practice that ***the political officials are led by their desire to obtain as much as possible during their term of office***. Some ministries and agencies often take initiatives to attach their opinion and request what they need, but they do not always succeed due to lack of consistent system.

- ***Don't attach much importance to repayment-*** this attitude blurs future repayment burden and creates public awareness that all of them are grant aid; but portion of grant aid in ODA is too low in comparison to other low and middle income countries, instead, at the level of high income countries. According to "International Development Statistics-2004", grant aid portion in total ODA is 65-71% for low and middle-income countries. The portion is 57% for high-income countries, but it is 53% for Mongolia. Therefore, we should work toward maintaining loan and grant aid ratio of 30:70 in receiving ODA.

- ***Ministries and agencies accustomed to submit a compiled list of wishes for a dare.*** For ODA loan projects, professional officers of ministries and agencies accustomed to submit a compiled list of wishes, rather than paying their time and effort, concentrating on socio-economic analyses at each level and deciding on really efficient projects to be submitted to upper organization.

- ***Lack of relationship between Budget framework statement (investment program) and ODA.*** Mongolian government budget and ODA seem to relate each other only when some objects covered by larger ODA program or project have to be eliminated from budget framework statement. But it is occasional or on ad hoc basis. That is, not all ODA programs and projects are reflected in investment plans of the budget framework statement. Since there is no such system to reflect them all, the MOFE's Investment division is incapable to handle the task due to lack of human resource.

- ***No decision-making authority at lower levels.*** Local community has a common understanding and expectation that 'Everything comes down from above' since there is

no policy environment to make initiative, receive and utilise ODA. Even there were cases that some loan users did not know that their loans came in actually, as mentioned in the previous research<sup>5</sup>. In other words, all issues must reach the top level in order to be resolved.

**- *Inadequate and nontransparent information.*** ODA information is nontransparent to the public. Such information and reports officially exchanged between government organizations and donors are incomplete and measured only by total amounts of received resources. Donor consultants cited examples that in some cases the ministries deliberately conceal information or accidentally mislead donors, resulting in a waste of time and resources on overlapped activities. A complex performance-based system of information and reporting has not been created yet.

**- *No controlling system at all levels.*** Mongolian government, ministries, implementing agencies and aid recipients all have no effective control at all levels and for all stages of implementation, from project initiative to completion as well as follow up stages.

#### **FOUR. ODA ON RURAL DEVELOPMENT**

##### ***4.1 ODA projects and programmes in rural areas***

Defining ODA contribution to rural development was problematic, with very little identification. Since significant number of projects aim at nationwide, macro-level reforms and restructuring, it is not reasonable to consider them non-rural. Also, we cannot isolate banking and financial sector capacity building and their service quality improvement projects from rural development. But, if we just exclude few large scale targeted projects and general-purpose reform projects such as aid in the form of food and goods, World Bank project "Improving public utilities in UB city", ADB project "Housing finance", "Buyant Ukhaa airport", which are implemented only in Ulaanbaatar, Darkhan and Erdenet from the main database, and pick up the projects closely associated with rural areas; then 58.8% of total loans and 38.8% of total grant aid in our totally disbursed ODA were utilized in rural areas. (Table 3)

**Table 3. Share of ODA amounts & projects associated with rural areas.**

	By volume of funding	
	Loan	Grant aid
Total ODA (million USD)	1255	1221
ODA utilization in 1991-1993	269.62	219.96
ODA utilization in 1994-2002	985.38	1001.4
Percent of ODA disbursement for projects and activities associated with rural areas	58.8	38.8

The above estimation is based on government database of ODA loans and grant aid and covered projects directly and indirectly associated with rural areas and implemented in 1994-2002. But here I did not include projects completed before 1996 and non-relevant loans and grant aid as well as emergency and food assistance.

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<sup>5</sup> Research report named "Recommendations on improvement of foreign aid management and coordination"- prepared by research team of the Mongolian Association of Irkutsk Economic University in the framework of the UNDP-based project " Support to Coordination of External Development Resources", 2002.

From above table we can assume that significant portion of total received ODA was disbursed in rural areas. However, it was impossible to estimate number of projects and measures and amount of aid disbursement by each aimag or local area.

Out of aimags covered by the research, Governor's Office of Selenge aimag took first initiative of organizing information exchange meeting on foreign aid projects implemented in the aimag, which was also supported by the Open Society Forum that organizes this research. The meeting, held on May 29 of this year, was an effective measure for exchanging information at aimag level and increasing participants' awareness on effects and importance of foreign aid to local development. As result of this measure, we produced a "List of foreign aid projects implemented in Selenge aimag", shown in the Appendix 4, which can be starting point of having complete database on foreign aid projects implemented in the aimag level. The list gives opportunity to see generally what kind of projects and measures are implemented in local level of aimags.

Though we made attempts to draw a complete list of projects implemented in Selenge aimag, it was impossible to express them in their volumes of funding. Therefore, we had to use a press release issued by the Governor of Zavkhan aimag, who said that the aimag implemented in total 15-16 million USD of projects for the last four years. If we use this amount as an aimag average, it was estimated roughly that total number of 21 aimags had received approximately 300-400 million USD of ODA in the last four years, which was fairly close to the above amount of documentation.

When we analyzed activity components, especially for poverty reduction projects implemented in rural areas, most of them were physical and intellectual forms of investments aimed at income generation, improvement of business environment and creation of small and medium business activities. That is, most of the foreign aid activities<sup>6</sup> were directed to the securing "growth" that we mentioned earlier in the project terminology section.

Basically, none of local administration and private sector people has a belief that aimag or local initiatives can be realized and implemented. There are two reasons: first, poor capacity to write a project in rural areas, second, no mechanism to make local initiatives agenda for upper decision making.

#### ***4.2 ODA effectiveness in rural areas***

In order to find answers to this question "How rural development has improved in these years?" I personally visited seven aimags, namely Uvurkhangai, Bayankhongor, Selenge, Dornod, Khentii, Khovd and Zavkhan, to conduct field research on ODA utilization and its effectiveness on rural development.

Since there is a common awareness that aid comes "down from the top", rural people basically have no sense of repayment except for one or two aimag administration officers.

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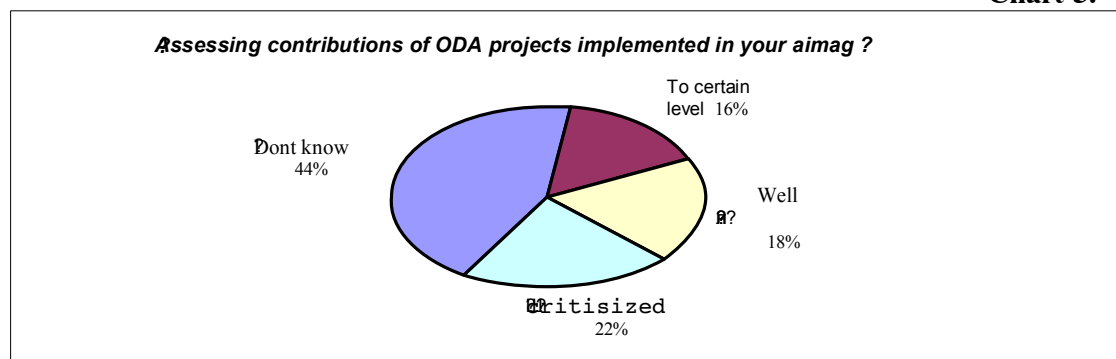
<sup>6</sup> These foreign aid projects excluded those projects ended by 1996 and started from 2002; supported import of goods and payment balance; addressed to Ulaanbaatar, Darkhan, Erdenet cities including Buyant Ukhua airport loan; and other general-purpose, structural reform projects covered whole national socioeconomic spheres.

Rural people generally understand ODA and other foreign aid in one concept of humanitarian aid. And they comment that local administration people, especially soum and bagh governors and their close relatives, benefit from the aid.

According to survey result based on question “How ODA affected improvement of citizens' living standards?”, over 80% of aimag and local administration officers and 10% of businessmen and NGO officers evaluated that it affected positively, while local residents answered, "don't know at all" or "no difference". They criticized, "People say that aid come, but actually local administration people take all themselves", specially addressing to bagh, khoroo and soum governors.

Generally, the survey result on whether foreign aid had positive contributions to the aimag and local development shows that 44% of survey participants answered "don't know", 18.3% of them evaluated that "they had good effects", 15.9% of them responded "to some extent", and 21.7% of them evaluated critically.

**Chart 5.**



To the question, "Could you run foreign aid projects effectively and continuously after the end of project implementation? ", only 6% of respondents answered 'YES', while 60.2% of them answered 'DON'T KNOW' and 23.2% of them responded 'NO'.

If we list the projects actually felt and known well today by local people, according to their interviews and responses to our questionnaire, they numbered over 40, but few of them were popular or commonly known and felt by local citizens. Here they are shown in the following table.

**Table 4. 10 projects most popular among rural people**

Name of project	Donor country or organization
1. Sustainable livelihoods project	World Bank
2. Gobi initiative project	USA
3. Regional development program and other projects -1991	World Vision
4. Education and information projects	Soros Foundation
5. Reproductive health	FRG
6. Grassroots	Japan
7. Health sector development program I & II	ADB
8. Provincial town urban service improvement project	ADB
9. Children's education projects	Save the Children UK
10. Agricultural sector development	ADB

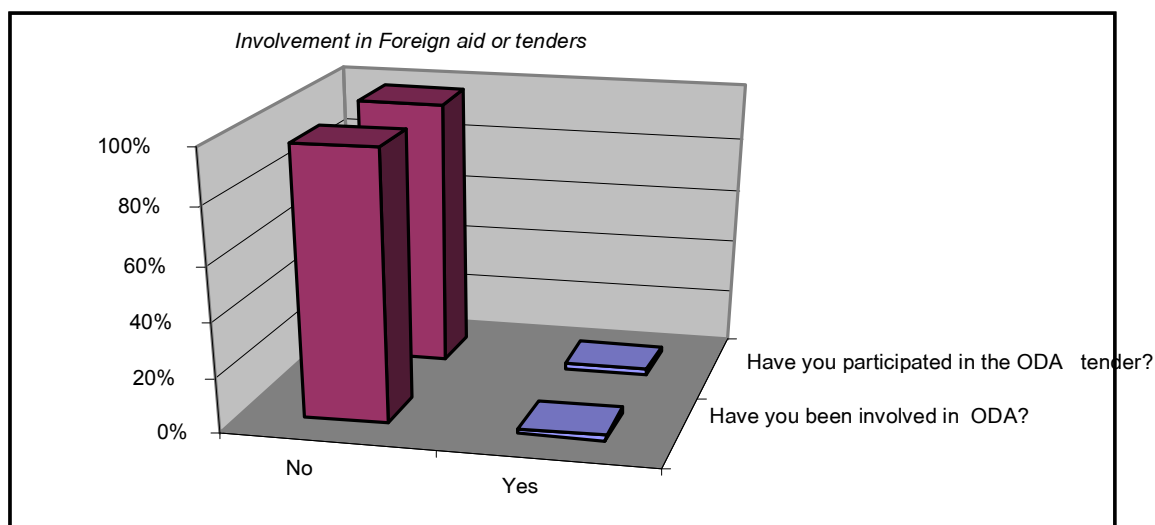
Despite a few projects mentioned in the above table could actually reach their targets in rural areas, it was observed that some other projects such as USAID-based "Gobi initiative" project, the World Vision programs, renewable energy projects and measures of German Technical Cooperation Agency, and projects of Norwegian aid organization, contributed in improving livelihoods and economies of rural population.

Also, I observed that mostly central project offices coordinated project implementations in rural areas and the full amount of resources allocated from centers did not always reach their rural targets.

Only 2% of rural people and businessmen participated in the questionnaire responded that they were involved in ODA projects and programs; and 6% out of 98% of those who had never been involved, answered that they tried to be involved but failed. There is only little chance to be involved in small projects announced through the Sustainable livelihood project. Therefore, it was possible to conclude from the above situation that a very little part of ODA projects and activities went to private sector, where rural businessmen had no access at all.

The above ratio was similarly maintained in their participation to foreign aid project and programme tenders, as shown in the Chart 6.

**Chart 6.**



Rural businessmen all criticize that "When commercial banks provide on-lending from the ODA concessional loans with original 0.5-1% annual interest rate to rural businessmen at commercial loan rates or too high annual interest rates of 30-42% and reduces the ODA loan terms of 20-30 years down to less than one year, thereby the ODA loan loses its meaning of ODA and makes rural businesses impossible to run". On the other hand, amount of the loan is very small, as if it was lent only for short-term livelihood, but not for conducting larger scale of businesses.

The majority of civil servants interviewed or who responded to our questionnaire expressed their opinion that a better use of ODA would be in social sectors, especially in education sector. But 90% of businessmen preferred to lend more ODA loans directly to local businessmen with low interest rate and longer term, which would be important for developing local production and services and improving repayment for businessmen. Although rural businessmen did not deny spending ODA in social sectors, they concluded that local social sectors could be improved by local economic development if we first invest in economic sector, in particularly the private sector.



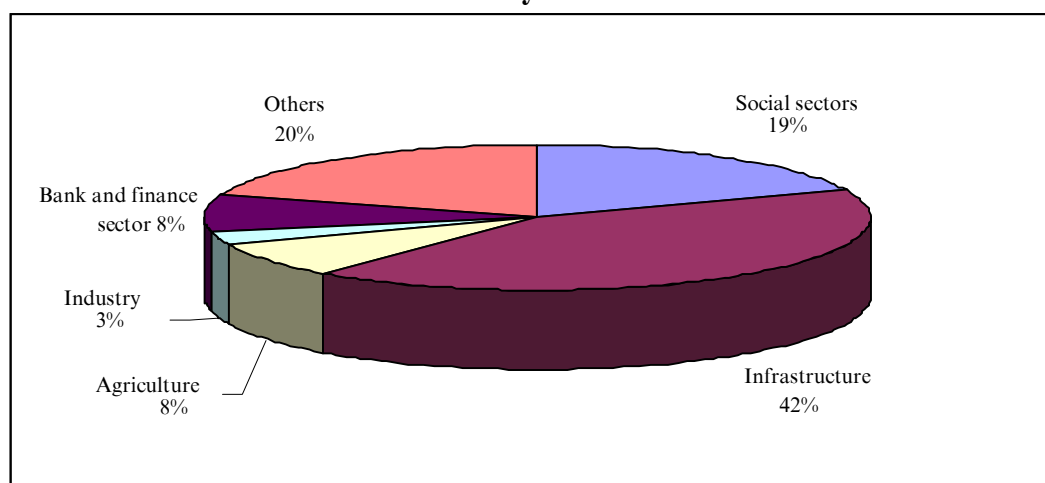
42 percent of total rural ODA was utilized in hard infrastructure such as road construction, telecommunication and energy sectors, 19 percent in social sectors such as human resource development, health and social welfare, while only 8 percent of them allocated in agricultural sector and just 3 percent in industry. Table 5 and Chart 7 illustrate this allocation.

**Table . ODA utilized in rural areas- by main sectors<sup>7</sup>**

SECTOR	LOAN	GRANT AID	TOTAL
Social sectors (human resource development, education, health, social welfare)	7%	36%	19%
Infrastructure	66%	6%	42%
Agriculture	7%	11%	8%
Industry	3%	4%	3%
Banking & finance	11%	2%	8%
Other	6%	41%	20%

**Total ODA utulized in rural areas - by sectors**

**Chart 7**



The situation inevitably led me to examine how is the ODA utilization in infrastructure as a basic condition for securing growth and in health and education sectors as indirect factors for securing growth in local aimags.

#### **4.2.1 ODA effectiveness in rural infrastructure**

People did not always remember investments and aid directed to infrastructure, social sectors and intellectual capacity building fields when they asked. But when we remind them and ask how did they affect you, they just remembered how they were before and started to feel actual outcomes. In other words, ODA contribution to road construction and power sector had already started to show their effects on people's livings and people got used to them forgetting past problems, thereby no longer regarded them in their evaluation. Over 30% of total ODA and over 40% of total ODA utilized in rural areas were spent for this sector, as result of infrastructural development policy that has been

<sup>7</sup> From the list of projects directly and indirectly associated with rural areas (excluding those projects completed before 1996 and started from 2002, as well as urban city and special object projects)

included in the list of government priority issues for the last decade. By virtue of well linked policies and implementations maintained in this sector, today coverage of telecommunication services has been improved radically and all forms of telecommunication such as telephone or mobile communication and internet connection have been completely introduced at aimag and city level and even in some cases reached soum level. Also distance education facilities have been connecting aimags and cities. Moreover, almost all aimags except for three aimags have been connected to central power line, which means preliminary conditions for production and business development have been created in aimags. Also in some aimags, namely in Zavkhan aimag, a German aid project, Japanese and Chinese aid provided with renewable energy sources for about 30 percent of rural herdsmen and thereby increased their number of information sources such as TV. Also it was pleased to visit a private company established in the aimag for repairing solar and wind energy sources, which had become daily necessity of herdsmen.

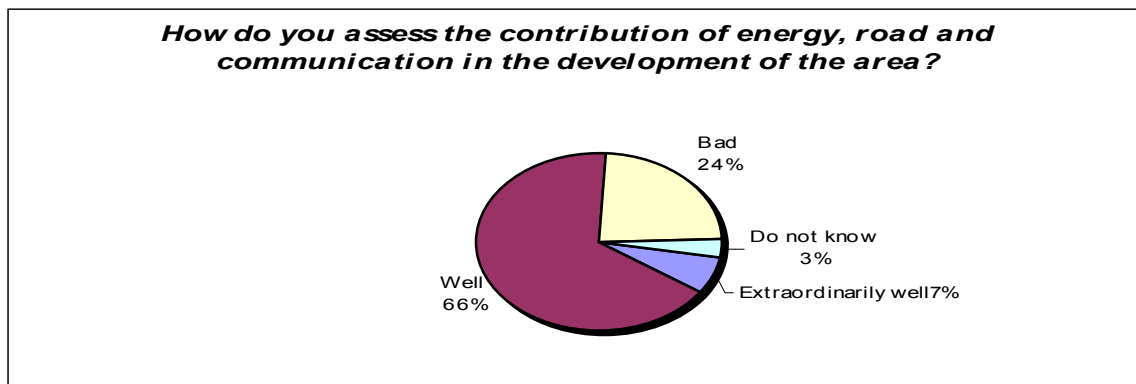
Large scale road construction works have improved roads between three big cities and some central aimags, thereby undoubtedly accelerates economic turnover of the region.

7% of questionnaire respondents including ordinary citizens, businessmen and local administration people, responded that foreign aid invested in road construction, communication and power affected rural development very well, 66.4% of them responded 'well', and 23.7% of them answered 'poor' (Chart 6). People working in this sector criticized that ODA project investments are not so efficient; especially equipments and technologies invested in communication, energy and health sectors do not operate in their full capacities, and explained reasons. However, machineries and mechanisms supplied by Japanese government aid and later transferred for the use of private road construction companies have been used very well and fully operated by their workers, which shows a clear example of highly efficient use of ODA in private sector.

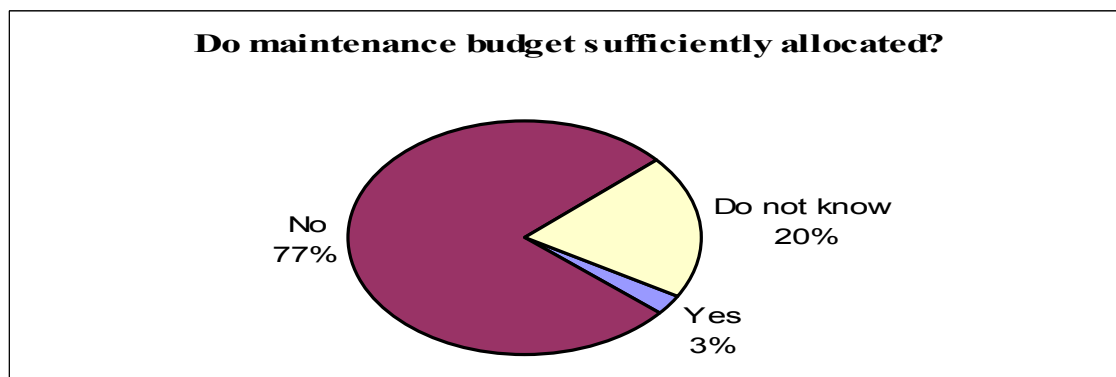
Significant portions of ODA resources were spent on road construction, but it was observed that the roads were damaged lacking necessary maintenance and service and people had to go by side-roads. So we need to pay attention on quality requirements of newly constructed roads and review current methods of selecting contractors. Seems that we need to direct more activities of Monitoring and evaluation department of the Ministry of Infrastructure to this end and involve them actively from the beginning of project selection stage. Also we need to improve road maintenance and service management and increase budget resources, rather than start constructing a new road.

To a question that whether repair and maintenance costs for infrastructure constructions reflected well enough in state budgets, 77.4% of respondents answered 'No', 20% of them answered 'Don't know' and only 2.6% of them responded 'Yes'. But, most of those answered 'Yes' evaluated that even they were reflected enough in fiscal accounts, they are not fully used for their purposes and in most cases they were spent on poor-quality services performed through personal relationships with contractors. Chart 8&9

**Chart 8.**



**Chart 9.**



#### **4.2.2 ODA effectiveness in rural education**

Large amount of ODA was also utilized by education sector. Over 10% of total ODA or about 250 million USD was spent for human resource development. In particular, when we interview people about foreign aid invested in general education schools, teachers of some schools remember its benefit, while parents completely denied it and students responded that the situation was same as usual. This puts forward a question how aid invested in this sector, particularly in the framework of general education training, were utilized effectively. A number of donors that focus much of their aid on this sector include Japan, ADB, Soros Foundation, and UN organizations. According to a report of MOECS, school attendance and number of dormitory students are drastically increased as a result of improvements in repair and maintenance of school and dormitory buildings.

Also it was observed during the course of this research that donor assistance took various forms. For instance, Japan, through the Mongolian Government, assists in construction and maintenance of school buildings, while the Japanese Embassy's "Grassroots" project contributed significantly to repairing school buildings in a considerable number of aimags and soums, which was appreciated by local citizens. The Grassroots project could create a belief among rural people, particularly at the level of general education school management that local level initiatives can directly turn into actions. Before it was difficult to imagine that their initiated projects would be implemented, but now people of this sector have become fully confident to visit Japan Embassy and make their initiatives work. However, we should note here that the school

directors who initiated and implemented the projects from the beginning told us, "Local administration people and MPs elected from the region are very good at reflecting such projects in their report as if they brought the investment themselves".

On the other hand, implementation of ADB program "Education sector development - I & II" was not always felt in rural areas and out of those felt ones, one or two training rooms established by the program investment were said to be poorly utilized and valued too high. After I interviewed about it much with 10th class students, I also had to make a conclusion that students' use of such equipped rooms was not satisfactory. But not every place had such a poor utilization record. For example, we should mention that computer training room of Temuujin school complex of Khentii aimag had a very good utilization.

Soum schools lack professional teachers. Soum school teachers are not only professionally incompetent, but also lack will and aspiration to teach children.

Generally, maintenance of school and dormitory buildings has been relatively improved in recent years as it was obvious in aimags and soums we visited. But still there are cases that the people who manage and work there lack will and initiative. For example, 19 children were accommodated in a big room of school dormitory in Jargaltkhaan soum, Khentii aimag, but the room had only one 60 watt light-bulb which reduces children's ability to repeat their lessons. Here we do not need any ODA, rather we should and can do it ourselves. I hope now the situation of this dormitory got better, since it was planned to be repaired this summer by Sustainable livelihood project resources.

Teachers and school officers were doubtful in their opinion on who are final beneficiaries of foreign aid.

Similarly aimag internet network established by Soros Foundation operates properly in some aimags while it was closed in other aimags. For example, Dornod aimag administration has attached importance to internet and information and operated the internet network established by Soros Foundation properly. By contrast, the Bayankhongor aimag administration closed its head computer, thereby making all network stations inoperable, because the administration believed the line rent were too costly. Even though all other network stations including schools paid their rents and expressed their ability to make payments, the aimag administration officials did not operate the network because of costs, which shows how they understand value of information in rural areas and attach radically different importances to it. Local administration staff do not always understand the necessity to attach importance to using information technology advantages in remotely located aimags in the current era of information.

#### **4.2.3 ODA effectiveness in rural health**

As concluded in the book "Location map and financing of health sector aid-2002", current project implementation directions basically meet 13 government objectives for developing health sector in 2000-2004, which shows there is a certain coordination and consensus between donors and the government.

In total, over 100 million USD of ODA projects have been implemented in the health sector and 60% of them, or over 62.0 million USD, of ODA projects and programs are now under implementation. Also 27% of these projects are financed by loans. The volume of ODA funding invested in this sector comprises 17% of total health sector

expenditures; and 38.4% of total number of foreign aid projects and 48.5% of total project funding have been implemented and disbursed by aimag and district level health organizations. In total, 23 projects and programs funded by 16 donors have been implemented in rural areas. The table below shows what kind of projects and activities are implemented in aimags covered by the research.

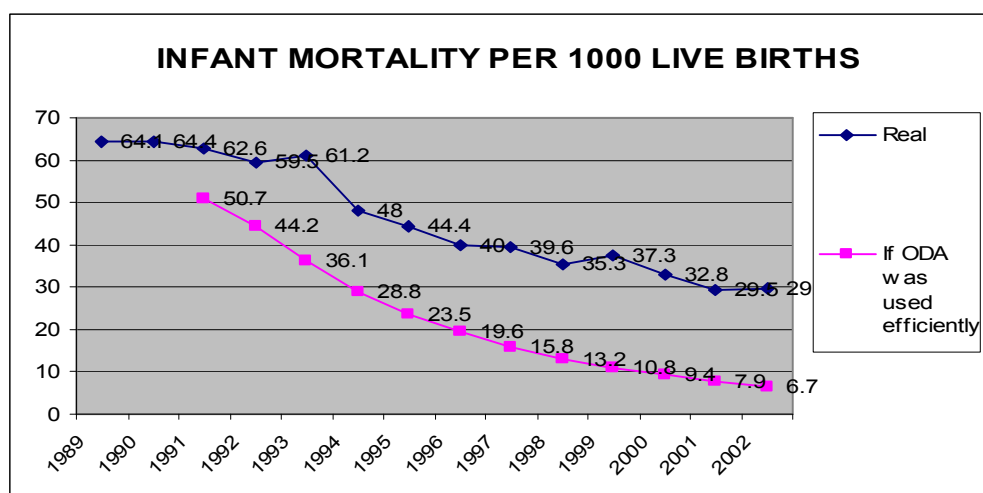
**Table 5. Number of health sector aid projects implemented in aimags covered by the research - by directions**

Project objectives and directions	Number of projects						
	Bayankhongor	Dornod	Uvurkhanga	Selenge	Khovd	Khentii	Zavkhan
1. Reproductive health/ Children and juvenile health	1	3		2	2	3	3
2. Food and health	1	1		1	1	1	
3. Hygiene and food security			1				
4. Improvement in hospital diagnosis and treatment quality and supply of equipments and facilities	2	1	2	3	3	2	2
5. Collective participation	1	1	1	1	1	1	2
6. Disability and restorative treatment	1		1		1		
7. Other	1	1	1		1	1	1

Source: "Location map and financing of health sector aid-2002" book

As result of the ODA invested in the health sector, major indicators of the country's health status were drastically improved, including infant mortality rate which was reduced from 64 per 1000 live births in 1991 to 29 in 2002, according to the implementation report of millennium development objectives, which is really appreciable. However, we have lost chances to achieve higher outcomes. If we take only one example of infant mortality rate, it was possible to be reduced as far more as illustrated by following chart.

**Chart 10.**



Note: The chart illustrates estimation based on GDP of 1995

The illustration shows that the health sector projects reached rural area in a fairly broad scale. But the my field research revealed that their utilizations were unsatisfactory indeed.

So that I continued my field research in aimag clinical hospitals, regional diagnosis and treatment centers and family practice group to investigate why ODA outcomes are not satisfactory.

Family practice groups established by Health sector development program-I investments now work in a way like former division clinics, not using project equipments and facilities properly. For example, common practices were observed, including they kept their computer unused for the fear of breaking or placed it at doctor's home; they couldn't operate advertising facilities properly or used some common facilities for the purpose of bulletin board for officers; couldn't repair ambulance vehicle -motorcycles for 7-8 months; and kept training room, special-purpose room and meeting rooms locked etc. Also very accurate and highly sophisticated diagnostic equipments were installed at aimag clinical hospitals, but they do not use them fully. For example, there is an expensive sophisticated microscopic apparatus "Fungus" designed for eyeball diagnosis at the Eastern region diagnostic center in Dornod aimag. But it was kept for several months unused and covered, since the trained specialized personnel who operates that device was on her maternity leave and later went for training in UB. However, eye division of the center does not have an easy-to-use, simple, inexpensive and modern eye-pressure measuring apparatus "Tornometer", which is necessary for examining eyes of each visiting patients. "That shows, there is no priority list for utilizing ODA and no consultation with professional people," said Mrs. Michelle Potter, who works at the center as a consulting nurse from England. The situation was also observed at Khentii and Zavkhan clinical hospitals. For instance, though there is a biochemical testing equipment with capacity of making over 30 types of diagnosis, they couldn't operate it and still use their old methods of diagnosis due to lack of competent professional operator and necessary reactive chemicals. In most cases, the trained personnel were sick, moved or went for training or the equipment lack necessary materials and chemicals that are too expensive. Moreover, ODA equipment tends to be used for different purposes, including private uses or for common regular activities, which actually need simple or elementary instruments.

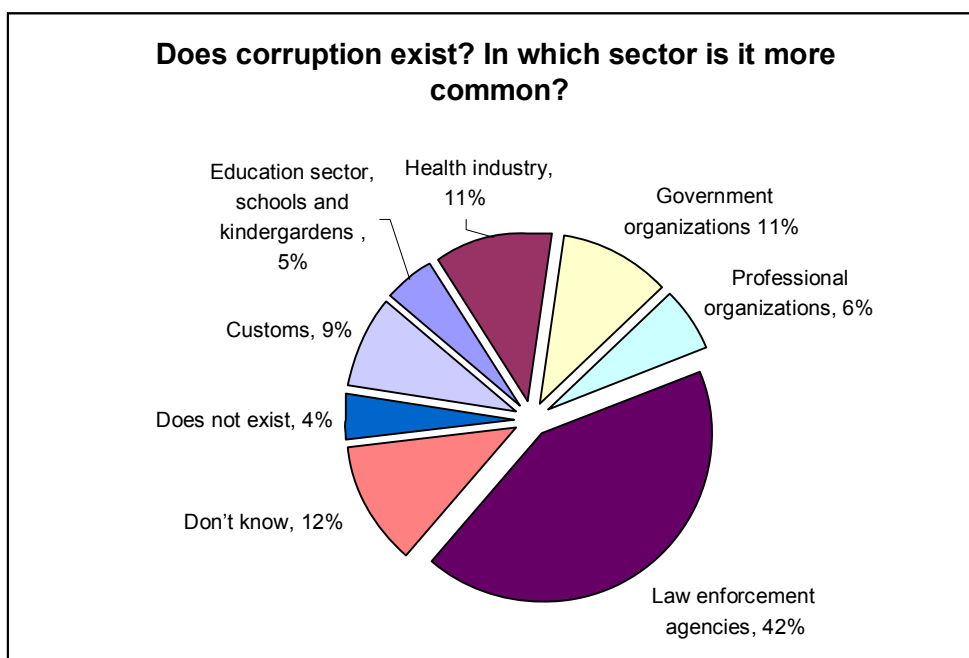
Besides, numerous training and workshops are being held throughout health sector for the last 3-4 years, which even make some rural hospitals with few doctors unable to serve their patients. Training and workshops are organized at the hospital, aimag centers and in Ulaanbaatar. Let's take only one example, when we visited 3<sup>b</sup>,3<sup>c</sup> family practice groups located in the clinical hospital building of Selenge aimag center, there were no doctor to examine patients but only two nurses because three doctors were participating training and workshop: one in Ulaanbaatar, one at local administration office and another one at the clinical hospital. At the time, all doctors of aimag clinical hospital had gone to attend a workshop organized at the hospital at 11.00AM, so that patients came from rural soums and baghs were unable to receive a service. Local citizens I met evaluated that the service quality did not improve much though health sector receives large amount of ODA. It was explained by several basic reasons, including:

- They do not realize their main duty is to serve the people;
- Poor management and organization, weak personnel structure and all the best doctors are in the management; thereby causes two consequences: first, to loose the best specialized doctors and second, to make management of the organization suffer due to unskilled managers;
- Inadequate number and training of specialists to operate modern sophisticated equipments and instability of trained personnel;
- Hospital working hours are too short, so that they do not serve everyone who wants to be diagnosed or treated; on the other hand, utilization rate is low for equipments;

- Too many training and workshops are held, especially, it makes clinics with few doctors unable to serve patients;
- Some people tend to make training and workshops as a source of income and attend them as much as possible even if they were non-relevant;
- They do not select proper equipments to be received by ODA. Incoming equipments don't operate fully in their capacity, because someone supplies from the above or a politician brings to satisfy will of someone;
- There is no system to monitor health organization activities in relation to their received amount of ODA;
- Poor discipline of health organization officers, especially rural ones, due to too low standard of ethics;
- ODA equipments and facilities are used for different purposes.

People's respond to the questions, "Is there any corruption? If yes, mainly where is it?" revealed that most corrupt areas are first, police, court and prosecutor's offices, and second, the health sector. This result shows that the foundation of our health care system is completely defective.

**Chart 11.**



It is obvious that any large amount of ODA can not bring a desired outcome in that situation. On the other hand, J. Surentsetseg concluded it in her article "Jobs and aid in Mongolia" that "As seen from the situation of 24 large projects implemented in the field of social security for the last 7 years, exactly where aid flows is very obscure", which also proves the fact.

#### **4.2.4 Other factors affecting poor ODA effectiveness in rural areas**

Another reason for ineffective utilization of ODA should be explained by poor management of public administration and public service organizations. By this research I felt that any large amount investments in hospitals, schools and public administration organizations can not bring desired outcomes when their management is poor.



Highly specialized and skilled people mostly do technical works in foreign project and program implementation units because of their high level of salaries. For example, a specialized engineer works in a project unit as a driver or technical assistance officer. Such example is fairly common and brings two-sided consequences. First, we're unable to take advantages of national specialists, and second, it tends to create a whole sphere of society, specialized only by foreign aid projects and programs and isolated from livings of common people due to their high rate of salary. Such sphere of society is not only phenomenon in Mongolia, but also commonly observed in other countries that have too low level of average salary and receive large amounts of foreign aid. This group of people are very sensitive to donors' project requirements and work toward fulfilling those requirements and participating proposed projects and programs, rather than feeling reality or landing on the ground of the country.

In rural areas, main subjects that work on ODA implementation and play in a broad range decision making roles, including humanitarian aid and training, are soum and bagh governors. Whether aid products, goods, works, services and training activities go properly to their targeted beneficiaries depends fully on them. That is, how aid products find and reach the people or targeted group depend on sincerity level of bagh and khoroo governors. Half of the interview participants criticized that bagh governors did not distribute aid completely, though reported as if they distributed all and also they distributed to their close people and relatives. Rest of other interviewees answered, they did not know at all about the aid received and distributed. To take only one example: an agricultural company technician of Selenge aimag said that he heard personally that the bagh governor who gave 25 kg rice to an indigent household said them, "please say you received 50 kg".

In other words, outcomes of small projects implemented by soum, district, bagh, khoros greatly depend on sincerity and principle of low and mid-level public administration officers and authorities. People I met told me, such public administration officers have a common dishonest and self-interested attitude. Therefore, another independent study to determine spread of such situation would contribute greatly in refining monitoring and coordination mechanisms for further ODA utilization.

Still exists common tendency that foreign consultants use much of foreign aid, and too expensive goods and equipments valued at high prices as well as almost outdated equipment and machineries are supplied in the forms of loan and aid. The general audit report conducted by the National Audit Office on 2003 activities of 13 UNDP-based projects mentioned that project fundings were made with many consecutive stages and 25.3-62.7% total project budgets were spent on salaries of foreign consultants. Therefore, we should involve Mongolian side actively in the selection of consultants and hire foreign consultants only in case if Mongolians do not have such expertise. Also we should conduct selection of national consultants and officers, which tends to increase in recent years, in more realistic and fair ways and use expertise of competent national consultants extensively. Setting English proficiency as a main selection criterion is unreasonable, instead we should add weights to other selection requirements and involve specialized professional engineers and technicians accumulated relevant experiences and skills as well as university professors and teachers.

Utilization rate of project equipment and facilities has been reduced due to their inefficient utilization or "ownership" of one or several group of people.

Besides, the research shows that donors are not so cooperative with each other and they do reflect own institutional ambition to their activities.

Environmental impact assessments, which have to be done by a company instructed by the Ministry of Environment, are not performed properly. Actually those companies do not perform proper assessment and they issue an assessment report just changing the name, address and location of previous reports as I informed by local project implementation units. In other words, there are many companies that develop own businesses by foreign aid project contracts, but limit their work only by meeting formality requirements of project documents. As mentioned in the above example, environmental impact assessments and environmental restoration assessments have to be done by a few companies. But they do not perform actual assessment, instead they just try to finance themselves from project resources by preparing assessment reports that meet formality requirements of donors.

On-lending processes of ODA concessional loans are very slow and bureaucratic, which increases waiting costs of rural people and leads them to retreat from their initial enthusiastic proposals and initiatives.

Projects need to pay more attention on the use of locally available raw materials. Some projects, for instance "Complex basic social services" project supplies all goods and materials such as sand, wood and spike that are available cheaply at local markets, from Ulaanbaatar, wasting more money on transportation. Thereby, they reduce efficiency of aid resources and spend transportation costs several times higher than their purchasing costs of goods.

Well-trained professionals do not work well at aimag levels. Aimag and local administration officers, including all positions from guardmen to governor politicize too much. That is, they prefer ruling party membership over competence. NGOs and foreign aid projects are less likely to achieve their objectives unless they have contacts and cooperation with local administration, thereby increases transaction costs. For example, aimag education department officers and NGO officers travel through soums with same purposes, but separately by different vehicles wasting double costs.

Also the teachers, who attended 1-2 day training of ADB "Education development programme" implemented by the MOECS, were promoted more than those methodologist-teachers, who completed 200-300 hours of programme training organized by Soros Foundation.

In general, despite many training, workshops, study tours organized in the field of human resource development, significant amount of investment spent for this purpose and principal changes made in school and kindergarden syllabuses; it is too early to conclude that they brought substantial outcome in rural development.

## FOUR. CONCLUSION

As result of my research sought to answer the main research questions on how outcomes of concessional loans and aid contributed rural development and whether they were utilized effectively, I reached the following conclusion.

Between 1991-2002, donors contributed over 1000.0 USD of grant aid and loans to each Mongolian citizen and this amount of ODA per capita made Mongolia one of five countries most dependent on foreign aid.

Due to poor economic policies and relevant institutional structure and mechanism to implement these policies as well as poor law enforcement, our GDP per capita is 4-10 times lower, investment rate is 9 times lower and infant mortality rate is 3 more times higher than their estimated achievable levels. In other words, actual outcome of ODA is too low or at the level basically not felt in rural areas. I would like to conclude that this low level of ODA effectiveness is caused by following factors.

- State service is very cumbersome. There are too many administration offices in an aimag center, including aimag governor's office, soum governor's office, taxation service, health office, education and culture office, professional inspection office, court and police etc, which are oversized in comparison to the local population. Rather than encouraging enterprises from the start of its business, too many inspections and controls are imposed actively, which lead people to extinguish their initiatives to run a production.
- Public service human resource management is poor. Quality and performance of public service are not so good, which is related to incompetence and lack of working attitude of recruited personnel and poor time management of public organizations. Also due to too low level of salary in public sector, good professional officers prefer professional or non-professional jobs at ODA project implementing units or promotion to higher management positions when political environment is favorable. Then it leads to two consequences both to loose to loose a skilled specialist and to make management of the organization worse due to unskilled managers. Moreover, in an aimag centers, competent personnel trained by series of ODA training for several years mostly work as project coordinator, secretary and translator while highly specialized young engineers work as project office driver and assistant officer. Thereby it distorts efficiency of human resource capacity and harms socioeconomic development of the country as well as creates so-called "project" group of people who have relatively high level of salary and isolated from the reality of life. Selection of foreign aid project officers only on the basis of their English proficiency and in accordance with donor's documentation requirement has become main cause of this improper practice. Also people, not relevant to the project objectives, or senior officers go abroad for project training and studies on reward-based procedures, so that they do not make any contribution to increase project effectiveness when they return.
- Public administration officers of aimag local administration organizations politize too much and discourage entiusiasm of professional people; they are very cautious in taking initiatives of a work; they like to own information and make their positions valuable; and disregard their duties to serve the people; therefore they create bureacracy at each level of administration, which also adversely affect on implementation and outcomes of foreign aid.

- Public administration and public service organizations have become accustomed to foreign aid, reacting in a way that it comes as usual and they - the public administration officers- have to use and spend it. In other words, they do not have a way of thinking, that the benefits of foreign aid should be delivered to the people through their services. Sufficient number of training was held for social sector workers in rural areas, but their outcomes are not so good due to poor human resource policy. A group of people, almost specialized by being a trainees, has been created.
- Due to inadequate budget support and fiscal understatements, buildings and constructions built by project resources lack routine repairs and maintenance, therefore subject to early defects and damages; which is another reason for low efficiency rate of ODA project investments and low utilization rate of supplied equipments and technologies.
- Rural community is in lack of information. Information accessibility is limited in rural areas, except for brief news on contract signing and tape-cutting ceremonies appear on TV or daily newspapers. Local people suppose foreign aid as a sack of flour or rice. Local people know very few or about 20 percent of all implemented and implementing projects, which proves information inaccessibility in rural areas.
- It is not secret that corruption and conspiracy is popular at mid- and low levels of administration. Ministry, district, soum, khoroo officials take use of ODA projects and programs through their relatives and close partners. For example, by not delivering humanitarian aid completely to those necessary, helping in winning competitive tenders, receiving certain percent of bonus in return, co-benefiting from contracts, or asking for assistance on other matters from the winner of tender etc.
- Because we do not think about how to continue a project further before implementing the project, project activities basically end with its completion. No organizational structure and personnel policy has been created to continue project operation, everything ends upon project completion just leaving loan repayment amounts on the state budget and job history records on curriculum vitae of a few project officers.
- ODA did not reach private sector, especially rural businessmen. Though one or two small amount of short-term loans with high interest rate was granted, the granting procedure itself is very cumbersome and its decision making is very time-consuming and bureaucratic, which increases waiting costs for rural people and tires them.
- Projects directly managed by donors through their project implementation units reach their targets more. That is, projects implemented through public administration organizations achieve poor results since they do not always reach their targets fully.
- ODA mostly focused on rural infrastructure and social sectors, but outcomes are unsatisfactory, especially in social sectors.
- There must be priority list for selecting equipments and goods supplied by ODA. As result of receiving highly sophisticated, high-capacity, expensive equipment and apparatus that need specialized personnel currently not available in Mongolia, rather than simple, easy-to use instruments; large amount of assets are being held in storage due to their inefficient uses. Projects need to reflect the aspect of preparation and training for specialised operators before receiving such high-capacity equipments.

- Young graduates aspire to move into cities due to unfavorable living and working conditions caused by insufficient supply of heating, hot water and apartment houses in aimag centers.
- Significant amount of ODA is costs for foreign consultants.
- Products and services supplied by ODA cost too high.
- Competitive tenders for selecting ODA project contractors and suppliers of ODA goods and products are not always conducted in fair and appropriate ways.
- Information on ODA implementation, utilization and outcomes are inadequate nationwide. Such information is exchanged only between few government officers and donors at official level.
- Foreign aid and assistances utilized by public sector can not be effective in the current situation, where corruption took place widely with respect to the too low level of salary of the people, especially of those work in public sector; where working attitude and approaches of public sector officers remain unchanged; where exists a system that enables to politicize every issue and disregard duties to serve the people, but try to increase values of their own position. Public sector is likely to attract large amount of investment in case if people's mindset, attitude and approaches are changed, if politicization is reduced, and if public sector salary level is increased at least 3-4 times from its current level to the level of project workers. Utilizing more foreign aid directly for the development of rural private sector would be more effective for the current situation.

## **FIVE. POLICY RECOMMENDATIONS ON IMPROVING ODA EFFECTIVENESS**

In order to achieve the main goal to find ways of improving foreign aid effectiveness in rural development, I explored how did we use ODA to date, what outcomes did we achieve, what were the main factors, as described in the above chapters. On the basis of my research findings I propose following recommendations.

### **I. In the framework of policy regulation, we need:**

1. To draft and approve long and mid-term strategic plans to receive ODA and to reflect my comments and recommendations proposed by this research work.

### **A. In setting directions for utilizing ODA in rural areas:**

- The first priority must be establishment of energy sources in aimag centers. But here we should address issues of aimags. That is, first we need to unite aimags with very close centers and then disburse ODA in providing reliable sources of energy for these centers. At first order, we need to involve private sector producers of renewable energy sources into ODA projects and disburse necessary budget expenditures.
- To disburse ODA in urban development, especially in constructing housing complexes with hot and cold water and in expanding and renewing city sewerage networks.
- To use long-term, low interest rate ODA loans for housing needs of aimag and local youths. To expand ADB housing loans into more cities and consider side effects that transaction costs of such loans may increase due to ineffective complex structure created if the loan documentation procedures are too cumbersome and request terms and conditions rural citizens can never achieve;
- To provide concessional loan sources for rural private businesses that process natural and livestock-origin raw materials and run agricultural production; and to develop small and medium enterprises in aimag centers at first order;
- To disburse ODA in establishing performance-based chain system that linked herdsmen, veterinary service and products aimed at developing veterinary sector and improving livestock health and breeding; which would be an export promotion measure;
- To involve wider range of private organizations operating in rural social sectors, such as private clinics, schools and training centers, in ODA projects and activities;
- To implement advertising campaign and public awareness training measures aimed at improving ethics and mindset of public administration, public service and special service officers and reducing their inefficiency, bureaucracy and corrupt practices; and to involve local NGOs in this campaign;
- To conduct systematic training on public sector human resource policy; to close all options that link job duties of public administration and public sector officers with their political views and eliminate the practice that employ own relatives. For this purpose, we need to establish open information system officially in all aimags and secure equal access for all aimag and local citizens.

B. In taking stance *to reduce portion of loans in total ODA down to 35-30%* and to increase portion of grant aid up to 65-70%, to make it close to the standards of other developing countries:

- To stop receiving economically inefficient, but socially effective loans in the near future;
- *To use only grant aid but not loans in rural social sectors;*
- To suspend temporarily the ODA disbursement on further construction of roads unless repair and maintenance budgets of previously constructed roads are reflected adequately in fiscal calculations;
- To establish a "head" institute for policy analyses and evaluation and utilize ODA only for efficient projects approved by the institute;
- To organize broad public discussion on large ODA projects involving professional organizations, research institutes and users and to enable opportunity for the people to express their opinion, before making decision to receive assistance;

*C. To separate functions of economic development policy from MOFE and establishing 'head' institute of development policy*

- The institute shall have a non-political structure comprised of competent leading economists and shall be responsible for conducting economic analyses on further ODA directions and loan projects and consulting the Cabinet;

*D. To restructure the FACC maintaining balance of representation from NGOs, research institutes, businesses and citizens, so that they can:*

- have discussion and consultation on new project proposals;
- discuss performance of previously implemented projects;
- issue press reports on results of discussions;

2. To draft and approve urgently the procedures and rules on implementing the Law on foreign aid regulations, including:

- Procedure on registering foreign aid granted in the form of goods and products
  - Procedure on domestic on-lending of foreign aid resources and its contract form
  - Procedure on project implementation report
  - Medium-term program on receiving foreign aid
  - Procedure and guideline on requesting necessary documents and materials from relevant bodies
  - Procedure on reporting storage, protection, usage and expenditure of foreign aid resources
  - Procedure on creation and use of foreign aid records and information database
- To concentrate the donor-to-donor coordination into hands of Mongolian government and identify their documentation requirements and reporting systems with each other;

## **II. In the framework of implementation coordination, we need:**

1. To ensure conditions to involve loan users actively in the project drafting stages, including:

- Economic efficiency calculation;
- Economic analyses;
- Implementation forms;
- Repayment schedule; thereby makes project assumptions close to reality and makes efficiency calculations reasonable.

2. To establish criteria for measuring ODA project implementation and performance outcomes and to make them bases for decision making to receive assistance.

3. In making on-lending contracts with ODA loan users, government shall take equal responsibility with the users in terms of government duties with regard to the loan.

4. To eliminate donors' and political influence on ODA project implementation and decision-making:

4.1 To ensure equal representation of government bodies, NGOs and private sector organizations in the composition of ODA project management committees;

4.2 To restrict political influence on all kinds of competitive tenders;

4.2.1 To ensure fair and transparent conduct of competitive tendering for for the supply of ODA project goods and services, excluding ministers, deputy directors, department heads and officers of ministries and administration departments from the composition of tendering committees and instead, involving professional people from aid beneficiaries or receiving organizations as well as broad representation from of local citizens (here I did not refer to representatives of citizens' assembly).

4.3 To stop the practice that politicians use equipments, constuctions, goods and services supplied by projects for the purpose of advertising campaign to strengthen their political position;

5. To make implementation reports identical for all donors and Government of Mongolia;

6. As for the supply, Mongolian side needs to develop common criteria and requirements for foreign aid goods and products at the very beginning and to follow them at all level. Especially, there must be high level of quality and consumption requirements. For example, they:

- 6.1 shall be under production in the near future;
- 6.2 shall be easy-to-use;
- 6.3 shall be priced not higher than market rate;



- 6.4 spare parts and supporting materials shall be easily available;
- 6.5 shall have low utilization costs;

In other words, the above procedures shall reflect terms that selection of machineries and equipment must regard their technical capacity to match desired operational capacity, operation complexity and procurement of spare parts or materials.

7. To make personnel training and stability guaranteed:

7.1 To prepare at least three specialized operators for highly sophisticated equipments and to set up a promotion system in correlation between working hours and utilization rate of supplied equipments;

7.2 To set salaries of trained operators minimally at the level of project officers;

7.3 To involve staff with stable employment in training and study tours of ODA technical assistance;

8. To set cost ceiling on foreign consultants on the basis of special survey.

9. To establish information system that covers all stages of foreign aid proposal, discussion, utilization and evaluation;

9.1. To create an integrated ODA information database that automatically registers all projects;

9.1.1 To provide certain discount and incentive for projects and measures registered to the information database;

9.1.2 To do regular adjustment with donors' information, which will be of benefit to both sides;

9.2 To provide systematic information on project implementation and follow-up utilization:

9.2.1 To publish a series of information bulletin "Foreign assistance in Mongolia";

9.2.2 To report on media expected outcomes of a project before its start and actual performance outcomes after completion of the project;

9.2.3 To create information system, where receives public opinion and information on project implementation and utilization and provides such information to others;

9.2.4 To provide information on project continuance, utilization and effectiveness by intervals of one, three and five years after the end of project.

**III. In the framework of outcome, continuance and monitoring:**

1. To report amount of assistance directly goes to beneficiaries on public media, which can become a self-controlling mechanism;

2. To establish performance criteria during project drafting phase and include them in the list of criteria for project approval;
  - To define socio-economic criteria for loan projects and make them transparent for all organizations and individuals involved in initiating loan projects; No project fallen behind the criteria shall go upper level organizations.
  - To consider continuity of a project before its start of implementation; and for some projects necessary to run continuously with stable structure and staff left, such conditions of continuity need to be included in the list of project approval requirements;
3. To make all criteria transparent to public;
4. Monitoring and evaluation divisions of ministries need to monitor performance and outcomes of ODA project implementation and utilization;
5. To allow NGOs and private sector organizations to evaluate follow-up project utilization and publicize their reports on public media.

## SIX. APPENDICES

### Appendix 1

#### LOCAL SURVEY PARTICIPANTS (BY PRODUCTION, SERVICE AND BUSINESS TYPES)

Organizations	U H	B H	K E	SE	D T	K O	ZA	Tota I
Aimag administration officers	4	2	2	8	3	3	6	28
Soum administration officers	9		1	13		2		25
Bagh administration officers					1			1
Aimag public organization officers (excluding health and education organizations)	2	5	4	7	4	4	3	29
Health sector officers			5	10	6	5	6	32
Education sector officers	2	19	7	3	15	4	2	52
Private businessmen	4	10	5	9	6	5	8	47
Banking sector officers	3	1		1	1	2		8
Foreign aid project officers	5	4	4	20	3	3	6	45
Herdsman	5		7		1			13
Agricultural sector workers			1	2		5		8
Mining and power station workers		2	1		1			4
Retailers	6	18	12	14	12	21	3	86
Road and construction workers			2					2
Patients				11	1	5		17
NGO officers	1	1	1	1	3	3		10
<b>Total</b>	<b>41</b>	<b>62</b>	<b>52</b>	<b>99</b>	<b>57</b>	<b>62</b>	<b>34</b>	<b>407</b>

### Appendix 2

#### Business entities registered to aimag tax offices

		1992	1995	1998	1999	2000	2001	2002	2003	2004
<b>Uvurhangai</b>	<b>Total</b>			493	404	329	303	316	330	
	LLC			129	128	130	130	138	166	
	Cooperative			98	39	37	40	45	79	
	Private business entity			194	167	86	62	56	0	
<b>Dornod</b>	<b>Total</b>			210	244	277	277	340	430	447
	LLC	12	50			100			132	
<b>Bayanhongor</b>	<b>Cooperative</b>	45	125			74			144	
	<b>Total</b>						256	308	395	
	LLC						127	166	220	
<b>Khentii</b>	<b>Cooperative</b>						36	41	63	
	<b>Total</b>					797	915	1076	1259	
	LLC				399	445	505	589	673	
<b>Selenge</b>	<b>Cooperative</b>				43	47	38	59	81	

### Appendix 3.

#### Sectoral allocation of ODA disbursed between 1991-2002

Sector	Total	Loan	Grant aid
Agriculture	154.4	38.99	115.4
Construction	29.97	-	29.97
Energy	253.41	130.52	122.90
Environment	43.54	-	43.54
Financial sector	85.67	72.41	13.26
Government reform	40.89	24.43	16.46
Health	91.31	14.07	77.24
Human resource development	234.67	14.32	220.35
Industry	195.71	142.14	53.57
Macroeconomic restructuring	188.19	90.28	97.91
Minerals	10.88	-	10.88
Other	166.51	148.92	17.59
Social welfare	48.55	17.85	30.70
Special aid	368.21	162.44	205.77
Communication	116.00	66.99	49.01
Trade	3.22	-	3.22
Transportation	404.89	311.54	93.35
Public utility	41.95	20.14	21.81
<b>Total</b>	<b>2476.99</b>	<b>1255.04</b>	<b>1222.9</b>

Source : Ministry of Finance and Economy, Mongolia 'Effectiveness and Contributions of ODA for Mongolia'. Mongolia Consultative Group Meeting 19-21 November, 2003. Tokyo. Japan.

## List of foreign aid projects implementing in Selenge aimag (over 40) and other implemented measures

Donor	Project implementors	Name of project	Project term, objectives and activities
Japan	Grassroots		Contributed to the resolution of financial matters for the maintenance of schools and kindergartens of Sukhbaatar, Hutul and Shaamar soums. Repaired building roof of Secondary school No. 1, Sukhbaatar soum (68 million MNT) and provided houses for 5 households of 5 baghs of the soum. Granted x-ray apparatus of 76 thousand USD, electricity generator for 500 households and computer facilities of 2.5 million MNT to Hutul soum.
		KP-2	Grain renewal measure covered 35 entities of 8 soums. Equipment renewal of 200 million MNT was done in Hutul.
	Ecology fund	Aid	Covered 30 children, 26 households in Altanbulag soum. Reforested 8 ha of area in 2003, 8 ha of area in 2004, and organized training for students. Forestation continues in Altanbulag soum of Selenge aimag.
	North East Asian Forest Forum and Japan	Rehabilitation of Tuj pine forest	Granted aid necessary for foresting over 400 ha of area
	JICA	Improvement of population immunization coverage	Aimed to improve population immunization and supply reliable vaccines in Khushaat. Project term is 10 years. Supplied one motorcycle of 1799,8 thousand MNT, one electricity generator of 462,0 thousand MNT, a Vaccine refrigerator of 250,0 thousand MNT. Trained one doctor, vaccinator and 3 assistant doctors in Bayangol soum. Granted a motorcycle of 1702,8 thousand MNT. Reduced children's illness by 1.8% and incidence of infectious diseases with vaccines by 60%.
			Implements many projects for reducing children's illness and incidence of infectious diseases with vaccines.
			Made research since 1994 on what sectors need what kind of aid.
USA		Renovation of training methods	Project covered Hutul town.
		Farmer to farmer	Covered 8 business entities of 3 soums in agricultural sector (Hutul)
UN, MOFA	UN – MOFA	Sustainable grassland management	Project duration 2003-2007. Covers 102 people, 52 households and 5 groups of herdsmen in Bayangol soum. Organizes training. Employed full-time local project officer and provided a set of computer, printer, desk and chair, JPS for pastureland measurement. The project covered over 200 people in Bayangol soum and established 4 cooperatives and 1 group.
Norway	Norway international charity organization	Orkhon project	
		Children and family project	Implementation started in 1999 and went to 2nd stage in 2004; the project cooperates with Bagahangai and Nalaikh districts of Ulaanbaatar city. The project aims mainly at improving social security and protecting rights of children living in difficulties by taking a complex, step-by-step measures to support families of selected districts that live below living standard. It covered Khuder soum.
			Starts free-of-charge professional courses for home appliance repairman, construction pipeline repairman, electrical welder, salesmen, treasurer and barmen. Many people have been registered.
			Conducted activities to reduce unemployment in Altanbulag soum and covered 1000,9 people.

FRG		Health development program	Project duration 1998-2008. Aims to train health sector officer and doctors in Selenge aimag, implement Complex management of Children's Management program for children and reduce infant mortality. By now, it has trained 62 college-degree doctors, financed IDM program for children, involved 60 children in summer nursing camp, established training and information center and spent in total 350,000 USD with annual disbursement of 50,000 USD to certain objects, including Egneshgui household clinics, physical treatment room in Orkhon tuul, micro-laboratory in Hutul, training and information center in Nomgon and Mandal, physical treatment facilities in Baruunkharaa, steam heating in Orkhon etc. Granted 362.8 thousand MNT to Khushaat soum for training 3 persons for 9 months in three years. In 2003, there was no mortality of children aged 0-5 in Bayangol soum and 7 doctors were trained in 2 training. Covered also Khuder soum.
		Selenge development project	The project has been implemented since 1995. It focuses on protecting Mongolian thin-wool sheep-breed in livestock sector. Here it cooperates with Livestock Scientific Research Institute. One of the main project successes was a pilot farm established in Khongor soum. They aim to secure constant growths in number of Mongolian thin-wool sheep with the help of this farm and local herdsman. Its wool processing center uses thin sheep wools in its processing. Poverty Reduction Fund organized training on wool and gave a wool-processing machine to Sukhbaatar soum (801 USD and 2 engines). The project also covered Hutul town. School teaches how to make wool products in Bayangol soum. 3 groups of vegetable growers have been created. The project also covered Khuder soum.
			The project allocates loans over 2 million MNT every year to Orkhon, Saikhan, Shaamar, Sukhbaatar and Javhlant soums to improve living standard of household vegetable growers and support irrigated cultivation and organizes regular training 1-2 times a year involving over 300 vegetable growers. (Orkhontuul soum) Distributed 150 kg of vegetable and flower seeds to 350 people and 135 kg of seeds to 270 people in Sukhbaatar soum. Granted loans of 500 thousand MNT every year in Bayangol soum and distributed necessary amount of new sort seeds. Organized each year 1-2 training and involved over 100 vegetable growers. According to requests of some people, built small sized of heating boiler in Altanbulag and Dulaankhaan and solar energy hot water showers in 6 soums. Holds 2-day project planning local workshop to define needs. The project also covered Hutul town and Khuder soum.
	GTCS	Environmental protection, sustainable management of natural resources	It has 5 objectives. 1. Forestation with sustainable management 2. Joint possession forestry 3. Sustainable management of tourism 3. Sustainable management of hunting 4. Natural adaptation and balance 5. Management of Khan Khentii special protected area
		Local human resource capacity building project	Held a workshop for three days
		Forest road	The project will construct minor roads linked soum centers to central roads. Drafted a project based on forest census research. According to request for concessional loans, the project is going to be implemented in Selenge and Zavkhan aimags. Now the project is at the MOFE. Forest census will be conducted in Tsagaannuur and Eruu soums.
			Granted financial aid and sent professional expert to organize the fighting against infectious insects and diseases and hunting management in Selenge aimag.
		Mother-friendly clinics	Implementation continues in 3 soums

		Reproductive health sector support project	Project duration 1998-2006. The project aims to improve family planning, pregnancy protection and disease prevention among pregnant women and birth age population and to reduce maternal mortality. During these periods, the project invested 200 million MNT, implemented projects in 11 soums involving 40 thousand people and achieved no maternal mortality record in 2003. Established mothers' rest rooms, solar energy hot showers, fully equipped training rooms and small steam boilers in soums, and reproductive health complex in aimag clinical hospital; and organized multiple training for professionals. Established hospitals in Tsagaannuur and Altanbulag soums. The project operates also in Bayangol soum. Performed interior design and furnishing of mothers' rest rooms in 8 soums and 3 villages. Invested in total 107 million MNT into health sector of Hutul town, including mothers' rest rooms, fully equipped training exercise room for elders, echo-diagnosis apparatus, fully equipped dental clinic room (9.2 million in 2004), vehicles for bagh doctors etc. Project implementation is doing well in Bayangol soum and all women got good awareness of reproductive health. Also, informal education project of World Vision organized distance education and established training centers in the soum and made 18 adults and 56 children literate.
		Household agriculture	Involved 57 citizens of 3 soums.
France	Sante-Su humanitarian organization	Santis project: Soum clinical aid quality improvement project	Project duration 2003-2006. Project aims to develop soum hospitals and involved all total number of 135 soum doctors to a 160-hour training on health first aid and service since 2003. This year it will equip every soum with a computer and spend a budget of 60 million MNT. Trainers will visit every soum 7 times and take measures to implement hospital projects and organize supplementary training. Established hospitals in Tsagaannuur and Khushaat soums. Granted aid to 4500 people and 10 households in Altanbulag soum. 8 doctors attended training in Bayangol soum, their service quality has been increased. Granted solar energy hot water shower to Bayangol soum. Implements project in Khuder soum.
Netherlands	Khadag society		Aims to create jobs, reduce poverty, develop agricultural business and supply medical equipments. Granted dental equipment.
UK	Save the Children UK		Established "Unur bul" center to create favorable living environment for 25 dispossessed children and help them study and live normally. The center now normally operates receiving financial support from local budget in recent four years.
Switzerland	JCS development cooperation agency	Reduction of natural disasters	Implementation lasted one year in 2003. Granted food aid to households suffered by dzud, including 2500 kg rice of 950000 MNT, 7000 kg flour of 2100000 MNT to 100 households, home medical package of 15.0-1500000 MNT to 100 households, and 10 tones potato of 3500000 MNT to 120 households for cultivation, which produced 53.6 tones of potato for food needs. Also distributed 3600000 MNT of meats to 100 households and involved in total 280 households. Granted aid of 10037.0 thousand MNT to 90 households and 270 citizens in Orkhon soum between April 20, 2003 and October 07, 2003 and improved household livelihoods. Granted 10 ger houses for homeless people in Sukhbaatar soum.
UNDP			Completely resolved kindergarten house problems in Javhlant, Sukhbaatar and Mandal soums.
		Pastureland management improvement project	Implementation started in Byangol and Mandal soums since 2003. Created 15 groups of herdsmen in those soums and trained local coordinators creating their working environment in order to improve lives of herdsmen by correlating livestock pastureland management with climate changes.

<b>Soros Foundation</b>			Made intellectual and material investment for education reform and disbursed 35.5 million MNT covering total 7 schools of 6 soums and organized training involving 19 national trainers and over 400 teachers. 5 children with highest achievements entered universities with supports from Soros Foundation. The Foundation helped actively in improving computer procurement of soum schools, increasing effectiveness of distance education, expanding pre-school education, establishing mobile library to serve school children, providing service vehicles etc., by the above amount of investments. Granted a copy machine of 250,0 thousand MNT, books of 32,0 thousand MNT to Khushaatar soum and 12 training computers to school No. 4 of Sukhbaatar soum.
<b>World Vision</b>			Granted 1750.0 of aid to 100 households and 296 citizens to help single-headed or indigent families below living standard in Orkhon soum between 2004.1.10-2004.2.1 and granted 5 tones of rice to 100 indigent households 5 baghs in Sukhbaatar soum.
		Food security	Granted food aid to households suffered with snowfall and dzud for a month since June 20, 2004, including 5 tones of rice to 100 households and 694 people.
		Informal education	Gave basic education to 12 children out of 25 children involved as result of activities to educate and socialize children dropped out of school in Bayangol soum. Involved 50 children of Mandal soum (implements 14 project). Stopped practice of children that wander in trains, established soum development fund and will continue its operation for 15 years.
			In cooperation with aimag Governor's Office organized measures to distribute total 90 tones of food aid to over 1900 herder families of 16 soums of the aimag, which suffered in the winter 2003-2004.
<b>WHO</b>	Global Fund		The project will implement in Bayangol soum between 2003-2005 for the purpose to let prostitutes use condoms 100%. In this framework, trained one specialist in a 2-day training.
<b>ADB</b>		Health sector development program I, II	Supplied medical instruments to Hutul town of Saikhan soum.
		Education sector development program I, II	Granted a training room to School No. 1 of Sukhbaatar soum and classrooms of chemistry, physics and biology and information equipments to the school of Hutul town.
		Rural development project	Loan projects for agricultural production have been implemented through aimag commercial banks involving rural residents of herdsmen and agricultural workers. The project involved total 300 business entities and citizens in 2003.
<b>Luxemburg</b>		MON-002	Starts linking aimag clinical hospital echo-diagnostic equipments to Hospital No. 3 in Ulaanbaatar city through telecommunication. Trained 2 aimag doctors in a course for three months.
<b>UNESCO</b>		Let's live learning	Organized activities to teach professional skills to the population and make them literate and involved over 200 households. The training involved 40 people in Hutul city.
<b>World bank</b>		TA	Implemented in Altanbulag soum for 3 months. Repaired school and kindergarten buildings, heating system and pipelines for 6500,0, involved 27 people. Built new fresh water system of Bagh No. 1 and school steam boiler of Bagh No. 5 in Sukhbaatar soum (fresh water-6500, 0, steam boiler-1600, 0).
<b>ADRA</b>			Distributed Kinova food rice to 223 workers of 4 organizations in Sukhbaatar soum from poverty reduction fund.
<b>Inner Mongolia</b>		Investment	Established dry-cleaning service in Sukhbaatar soum with investment of 10 million MNT and created 2 jobs.
<b>Fu-Hua LLC</b>		Investment	Established wood carving enterprise in Sukhbaatar soum with investment of 50 million MNT and created 20 jobs.



		Grant aid	Donated 3 million MNT for the central garden in Sukhbaatar soum.
<b>PR China</b>		Investment	Established wood stick factory in Sukhbaatar soum with investment of 100 million USD and created 120 jobs.
		Increasing public awareness and releasing children from heavy labor	Project duration 2003.9.26-2005.2.26, Involves 64 children of 32 households in Bayangol soum. Organized training two times. Brought whole project team to Ulaanbaatar and trained them for three days.
<b>APEC</b>			
<b>UN Children's Fund</b>		Collective health project	Project aims to improve supply of medicines and medical products and create regular source of assets for drug stores. Project continued between 1996 and May 2003 and supplied total 3.7 million MNT of medicines and medical materials. Now drug stores finance themselves from own resources.
<b>European Union</b>	TACIS	Agriculture	Establishes irrigation system in Bayangol soum.
		Agriculture, livestock breeding	Nomun Khan LLC was involved in an agricultural project. It receives 25% of fertilizers free of charge and purchases other 75%.
<b>Korea</b>		Food program	Distributed cash on the site during 2003 fire.
<b>Peace corpus</b>			6 American came to Hutul and organized training.
			Implemented a project to increase public awareness of mercury poisoning.
<b>DANIDA</b>			

This is the list of projects mentioned at the consultative meeting of coordinators of foreign aid projects implemented in Selenge aimag. Мөнгөн үс

## Appendix 5.

**Main socioeconomic indicators of Bayanhongor aimag**

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	83.2	85.2	87.3	89.6	91.1	85.3	85.7	84.4
Number of herder households	Number	12212	12470	13938	14090	14186	14246	13698	11643
Number of poor population	Person	26826	26816	33738	31342				
Unemployment, at the end of period	Person	2227	3370	3112	2395	2036	2000	1833	2465
Infant mortality (per 1000 live births)	Number	59	42	52	31	45	38	33	44
Number of livestock	Thousand heads	2227.1	2233.1	2428	2511.3	2475.1	1522.8	1581.7	862.2
Cultivated agricultural area	Ha	78.8	89.7	85	183.2	194.5	167.8	141.9	272
Local budget income	Million MNT	506.6	538.3	638.8	809.6	689.5	788.4	1767.7	2047.1
Local budget expenditure	Million MNT	1779.7	2181.5	2474	3493.5	3411	4558.9	5247.9	5187.4

**Main socioeconomic indicators of Khentii aimag**

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	73.8	73.9	73.7	72.9	70.9	71.4	71.9	72
Number of herder households	Number	7552	7269	7095	7794	7798	7722	8016	7378
Number of poor population	Person	10193	12216	22308	17466				
Unemployment, at the end of period	Person	1735	1953	2005	1686	1538	1864	1496	996
Infant mortality (per 1000 live births)	Number	36	40	43	33	25	45	33	41
Number of livestock	Thousand heads	1100.9	1150.5	1254	1388.7	1462.3	1471.4	1356.7	1378.5
Cultivated agricultural area	Ha	7537.7	12250.1	13645.9	14815.9	13334.7	9708.5	7939.2	14227.9
Local budget income	Million MNT	618.9	780	889.2	870.1	936.9	1044.4	1494.8	2215.1
Local budget expenditure	Million MNT	1792.1	2272.6	2718.8	2994.9	3485.8	4624.5	5336.4	5312.2

### Main socioeconomic indicators of Khovd aimag

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	86.3	87	87.7	87.4	86.8	87.8	88.7	88.5
Number of herder households	Number	9572	9528	10202	10313	10368	10670	10470	9137
Number of poor population	Person	18342	23122	25579	39705				
Unemployment, at the end of period	Person	1863	2065	1977	1921	1890	1880	1389	1029
Infant mortality (per 1000 live births)	Number	43	47	33	39	38	36	35	35
Number of livestock	Thousand heads	2070.6	1954.9	1926.5	1795.9	1867.9	1836.3	1512.7	1323.9
Cultivated agricultural area	Ha	1641.7	2342.7	2344.6	2940	2978.5	2690.8	2648.2	2958.2
Local budget income	Million MNT	392	455.8	601.6	775.1	810.1	819.1	1272.4	2245.3
Local budget expenditure	Million MNT	10789.9	2119.5	2523	3022.3	3388.8	4343.4	5245.7	5532.6

### Main socioeconomic indicators of Selenge aimag

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	96.4	97.3	98.1	99.2	100	100.9	101.7	102.2
Number of herder households	Number	2254	2471	2312	2719	2189	2803	2762	3244
Number of poor population	Person	11385	12678	8865	16682				
Unemployment, at the end of period	Person	2134	2714	3267	1732	1320	1508	1129	822
Infant mortality (per 1000 live births)	Number	37	36	25	25	35	18	19	30
Number of livestock	Thousand heads	504.7	506.6	522.5	569.4	622.6	654.5	645.4	683.4
Cultivated agricultural area	Ha	130103.6	123966.7	120790.5	140145	130391.6	93656.4	100648.6	125092.1
Local budget income	Million MNT	2503.1	3308.2	4753.5	5344.8	5020.2	4194.9	4623.7	3966.3
Local budget expenditure	Million MNT	2899.6	3822.5	4983.8	5827.1	5853.4	6947.1	7041	8107.3

### Main socioeconomic indicators of Uvurhangai aimag

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	109.5	110.5	111.5	112	111.4	113	114	113.9
Number of herder households	Number	17197	17687	19845	18723	19787	19653	18721	17814
Number of poor population	Person	27324	34970	44347	36457				
Unemployment, at the end of period	Person	2588	3264	2286	2906	2435	2469	2420	2137
Infant mortality (per 1000 live births)	Number	35	50	35	37	32	29	20	32
Number of livestock	Thousand heads	2595	2550.1	2718.2	2921.5	2956.6	2159	1869.1	1665.4
Cultivated agricultural area	Ha	13661	10842.1	9935.3	3629.2	1769.7	2935.4	2772.8	3512.2
Local budget income	Million MNT	892.2	1375.5	1735.2	1465.9	1450.8	1279.2	1893.2	3119.7
Local budget expenditure	Million MNT	1855	2554	3559.5	3639.5	4415.9	4721.1	5481.5	6161.1

### Main socioeconomic indicators of Dornod aimag

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	77.8	78	77.5	76.7	75.3	74.2	74.5	74.7
Number of herder households	Number	3783	3728	4483	4175	4514	4908	4959	4683
Number of poor population	Person	19286	21927	25980	18978				
Unemployment, at the end of period	Person	5253	5982	6220	4216	2177	2397	2272	1321
Infant mortality (per 1000 live births)	Number	68	51	60	39	42	43	41	41
Number of livestock	Thousand heads	591.4	594.2	657.2	735.7	811.8	826.2	794.1	825.4
Cultivated agricultural area	Ha	8737	11587.6	14605.4	8162.3	6811.5	5144.2	5338.8	6181.5
Local budget income	Million MNT	804.9	795.3	1157.1	1023.8	908.9	983.5	1579.6	2152.8
Local budget expenditure	Million MNT	1579.5	1862.7	2765.2	2996.6	3314.6	4111.7	4633.8	4869.8

### Main socioeconomic indicators of Zavkhan aimag

	Measurement unit	1995	1996	1997	1998	1999	2000	2001	2002
Permanent population, by the year end	Thousand people	95.9	95.8	95	93.7	90	87.2	86.8	84.6
Number of herder households	Number	12164	12304	13468	13284	13305	12825	11081	10121
Number of poor population	Person	16916	22318	26210	42673				
Unemployment, at the end of period	Person	2120	32625	4159	3843	3200	2829	2916	1830
Infant mortality (per 1000 live births)	Number	45	39	37	33	39	30	30	39
Number of livestock	Thousand heads	2401.4	2474.5	2556.5	2603.6	2432	1941.3	1486.7	1443.2
Cultivated agricultural area	Ha	985.3	1170.7	710.3	1094.8	724.3	705.7	366.5	613.8
Local budget income	Million MNT	506.8	565.4	614.7	723	794.1	771	1347.2	2077.6
Local budget expenditure	Million MNT	2002.6	2433.3	3143.6	3160.3	3840	4720.2	5559.4	5849.7

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